

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

PENSION TRUST FUNDS OF THE STATE OF NEBRASKA

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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Issued on March 1, 2016

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

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

BACKGROUND

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

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

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

Two appointed members must meet the following requirements:

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

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

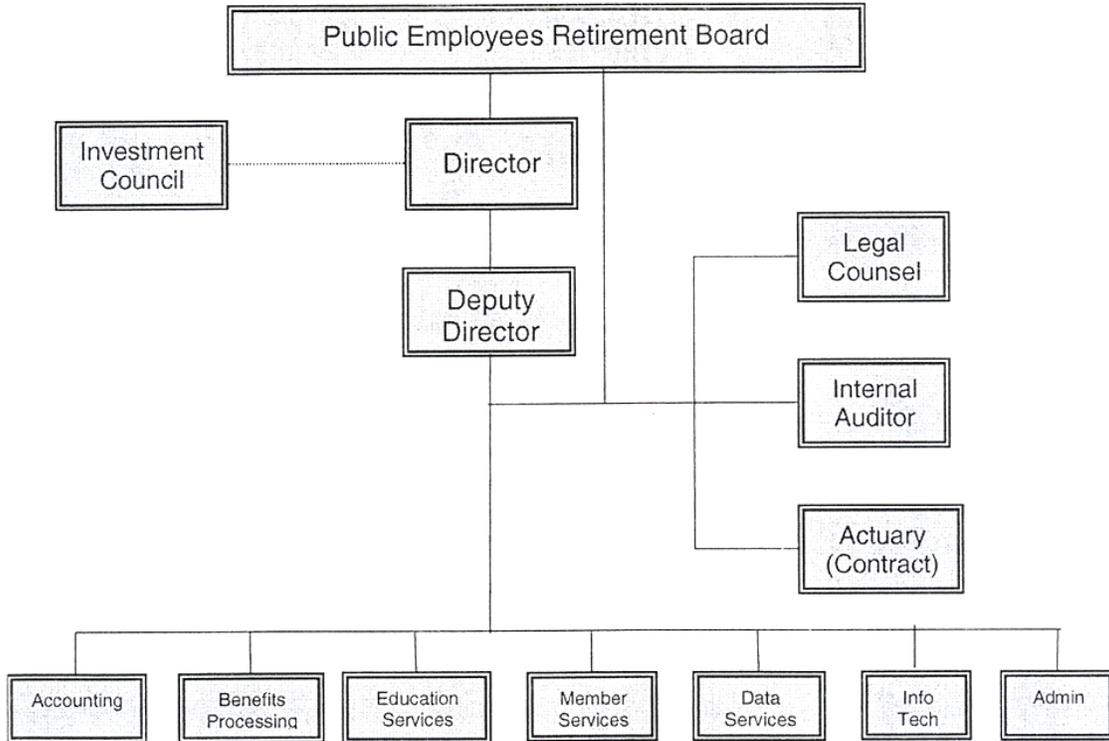
All appointed members must be Nebraska citizens. Members of the Board are paid \$50 per diem and are reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be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

MISSION STATEMENT

The Nebraska Public Employees Retirement System seeks to administer the retirement systems with exceptional service, integrity, and commitment for the exclusive benefit of our plan members to ensure retirement security for their future.

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

ORGANIZATIONAL CHART



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

EXIT CONFERENCE

An exit conference was held February 16, 2016, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. The following were in attendance for NPERS:

| NAME | TITLE |
|------------------|--------------------------|
| Ron Ecklund | NPERS Board |
| Denis Blank | NPERS Board |
| Phyllis Chambers | Director |
| Orron T. Hill | Legal Counsel |
| Teresa Zulauf | Internal Auditor |
| Maria Davis | Retirement Specialist II |
| Miden Ebert | Retirement Supervisor |
| Christine Ford | Internal Auditor |
| Randy Gerke | Deputy Director |
| Dennis Rohren | Accountant III |



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 SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying Statements of Plan Net Position and the related Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2015, 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 School Districts' Net Pension Liability, Schedule of Changes in the Judges' Net Pension Liability, Schedule of Changes in the State Patrol's Net Pension Liability, Schedule of Employer and Non-Employer Contributions, Schedule of Investment Returns, and Notes to Required Supplementary Information on pages 34-46 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 Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ basic financial statements. The Schedule of Administrative Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2016, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and compliance.

February 22, 2016



Zachary Wells, CPA, CISA
Audit Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2015

| | School Employees | Judges | State Patrol |
|---|--------------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash in State Treasury | \$ 6,244,801 | \$ 93,304 | \$ 177,040 |
| Deposits with Vendors | \$ 9,091 | \$ 94 | \$ 94 |
| Receivables | | | |
| Contributions | 65,160,267 | 343,972 | 4,466,115 |
| Interest & Dividend Income | 13,387,253 | 222,970 | 488,234 |
| Other Investment Receivables (Note 4) | 714,318,482 | 11,904,112 | 26,146,680 |
| Total Receivables | \$ 792,866,002 | \$ 12,471,054 | \$ 31,101,029 |
| Investments, at fair value (Note 4): | | | |
| Bank Loans | 218,615,594 | 3,643,227 | 8,001,905 |
| U.S. Treasury Notes and Bonds | 370,687,959 | 6,177,512 | 13,568,153 |
| Government Agency Securities | 11,114,620 | 185,225 | 406,824 |
| GIC | - | - | 942,960 |
| Corporate Bonds | 567,289,562 | 9,453,876 | 20,764,289 |
| International Bonds | 124,642,245 | 2,077,162 | 4,562,234 |
| Equity Securities | 1,494,100,846 | 24,899,179 | 54,688,018 |
| Private Equity | 547,267,564 | 9,120,209 | 20,031,431 |
| Options | (87,467) | (1,458) | (3,202) |
| Mortgages | 436,058,829 | 7,266,929 | 15,961,012 |
| Private Real Estate | 285,211,134 | 4,753,041 | 10,439,477 |
| Asset Backed Securities | 96,515,847 | 1,608,436 | 3,532,734 |
| Municipal Bonds | 16,450,291 | 274,144 | 602,124 |
| Commingled Funds | 5,494,067,169 | 91,558,585 | 207,261,063 |
| Short-Term Investments | 203,028,947 | 3,383,476 | 7,647,357 |
| Total Investments | \$ 9,864,963,140 | \$ 164,399,543 | \$ 368,406,379 |
| Invested Securities Lending Collateral (Note 4) | \$ 180,359,727 | \$ 3,005,693 | \$ 6,707,777 |
| Capital Assets (Note 10) | | | |
| Equipment | 4,811,832 | 65,916 | 65,916 |
| Less: Accumulated Depreciation | (4,807,903) | (65,861) | (65,861) |
| Total Capital Assets, net | \$ 3,929 | \$ 55 | \$ 55 |
| TOTAL ASSETS | \$ 10,844,446,690 | \$ 179,969,743 | \$ 406,392,374 |
| LIABILITIES | | | |
| Compensated Absences Payable (Note 5 and 8) | 261,952 | 3,513 | 3,356 |
| Accounts Payable and Accrued Liabilities | 7,913,260 | 101,424 | 486,742 |
| Obligations under Securities Lending (Note 4) | 180,359,727 | 3,005,693 | 6,707,777 |
| Other Investment Payables (Note 4) | 963,643,048 | 16,059,104 | 35,271,868 |
| Contributions for Omaha Public Schools (Note 6) | 6,452,650 | - | - |
| TOTAL LIABILITIES | \$ 1,158,630,637 | \$ 19,169,734 | \$ 42,469,743 |
| NET POSITION RESTRICTED FOR PENSIONS | \$ 9,685,816,053 | \$ 160,800,009 | \$ 363,922,631 |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | School Employees | Judges | State Patrol |
|---|-------------------------|-----------------------|-----------------------|
| ADDITIONS | | | |
| Contributions | | | |
| Plan Member | \$ 174,797,341 | \$ 1,610,529 | \$ 4,180,263 |
| Employer: | | | |
| Schools | 173,013,848 | - | - |
| Court Fees | - | 2,977,205 | - |
| State Patrol | - | - | 4,207,087 |
| State Appropriations | - | 94,000 | 4,439,339 |
| Non-Employer (Note 2) | 42,944,099 | - | - |
| Total Contributions | <u>\$ 390,755,288</u> | <u>\$ 4,681,734</u> | <u>\$ 12,826,689</u> |
| Investment Income | | | |
| Net Appreciation in Fair Value of Investments | 255,451,753 | 4,278,474 | 9,438,807 |
| Interest & Dividends | 120,594,886 | 2,018,293 | 4,661,861 |
| Securities Lending Income | 1,384,220 | 23,068 | 51,183 |
| Total Investment Income | <u>\$ 377,430,859</u> | <u>\$ 6,319,835</u> | <u>\$ 14,151,851</u> |
| | - | | |
| Investment Expense | (21,285,614) | (356,074) | (808,169) |
| Securities Lending Expense | <u>(297,731)</u> | <u>(4,962)</u> | <u>(11,032)</u> |
| Net Investment Income | <u>\$ 355,847,514</u> | <u>\$ 5,958,799</u> | <u>\$ 13,332,650</u> |
| Other Additions | <u>\$ 28,877</u> | <u>\$ 3</u> | <u>\$ 21,619</u> |
| Total Additions | <u>\$ 746,631,679</u> | <u>\$ 10,640,536</u> | <u>\$ 26,180,958</u> |
| DEDUCTIONS | | | |
| Benefits | 486,435,945 | 8,547,892 | 17,235,329 |
| Refunds of Contributions | 13,849,888 | - | 2,223,211 |
| Administrative Expense | 3,153,883 | 82,746 | 116,679 |
| Other Deductions (Note 6) | 8,357,633 | - | - |
| Total Deductions | <u>\$ 511,797,349</u> | <u>\$ 8,630,638</u> | <u>\$ 19,575,219</u> |
| NET INCREASE IN PLAN NET POSITION | <u>\$ 234,834,330</u> | <u>\$ 2,009,898</u> | <u>\$ 6,605,739</u> |
| NET POSITION RESTRICTED FOR PENSIONS | | | |
| BEGINNING OF YEAR | <u>\$ 9,450,981,723</u> | <u>\$ 158,790,111</u> | <u>\$ 357,316,892</u> |
| END OF YEAR | <u>\$ 9,685,816,053</u> | <u>\$ 160,800,009</u> | <u>\$ 363,922,631</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

The NPERS Board is comprised of eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members must be active or retired participants in the retirement system. The six members include: two participants in the School Retirement System, consisting of one administrator and one teacher; one participant in the Nebraska Judges Retirement System; one participant in the Nebraska State Patrol Retirement System; one participant in the Retirement System for Nebraska Counties; and one participant in the State Employees Retirement System. Two appointed members must meet the following requirements: 1) not be an employee of the State of Nebraska or any of its political subdivisions; and 2) have at least 10 years of experience in the management of a public or private organizations or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan. The State Investment Officer serves as a nonvoting, ex-officio member.

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

Separate reports have been issued for the State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2014, and the Deferred Compensation Plan for the calendar year ended December 31, 2014.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting

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

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

D. Cash in State Treasury

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

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

E. Investments

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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

F. Capital Assets

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

Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. Equipment is depreciated over 3 to 10 years using the straight-line method.

G. Compensated Absences

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

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

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

H. Use of Estimates

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at July 1, 2015, the date of the last actuarial valuation:

| | School Employees | Judges | State Patrol |
|---|---------------------|--------|-----------------|
| Inactive Plan Members or Beneficiaries | | | |
| Currently Receiving Benefits | 21,836 | 179 | 413 |
| Members in Deferred Retirement Option Plan (DROP) | - | - | 51 |
| Inactive Plan Members Entitled to but not yet Receiving Benefits | 5,891 | 6 | 19 |
| Inactive Nonvested Members | 15,122 | - | 6 |
| Active Plan Members | 40,994 | 147 | 413 |
| | 83,843 | 332 | 902 |

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a), 414(h), and 414(k). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Supp. 2015) for the School Employees Retirement Act, Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2008, Cum. Supp. 2014, Supp. 2015) for the Judges Retirement Act, and Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Reissue 2014, Supp. 2015) for the State Patrol Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. In 1945, the Legislature enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2015, there were 266 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

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

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to two percent of the compensation of all members. This contribution is considered a nonemployer contribution since school employees are not employees of the State. The employee contribution was equal to 9.78 percent from July 1, 2014, to June 30, 2015. The school district (employer) contribution is 101 percent of the employee contribution.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Judges Retirement

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

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

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or 2.5 percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

Contributions. The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A six-dollar fee for each case is collected from District and County Courts, Juvenile Courts, the Workers' Compensation Court, the Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Each new member after July 1, 2004, and those active members who elected within 90 days of July 1, 2004, contribute 9 percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, members contribute 5 percent of their monthly salary for the remainder of their active service. All other members contribute 7 percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, those members contribute 1 percent of their monthly salary for the remainder of their active service.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

State Patrol Retirement

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

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment that is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or 2.5 percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 60 percent of the purchasing power of the initial benefit.

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

Deferred Retirement Option Plan (DROP). Neb. Rev. Stat. § 81-2041 (Reissue 2014) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into an IRC § 414(k) Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

The balance of the DROP at June 30, 2015, was \$7,302,401.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress

The components of the net pension liability for the plans at July 1, 2015, the most recent actuarial valuation date, were as follows:

| | (a) Total Pension Liability | (b) Plan Fiduciary Net Position | (a-b) Net Pension Liability | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------|-----------------------------------|---------------------------------------|-----------------------------------|--|
| School | \$ 10,778,303,637 | \$ 9,685,816,053 | \$ 1,092,487,584 | 89.86% |
| Judges | 162,095,235 | 160,800,009 | 1,295,226 | 99.20% |
| State Patrol | 410,210,579 | 363,922,631 | 46,287,948 | 88.72% |

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

| | <u>School Employees</u> | <u>Judges</u> | <u>State Patrol</u> |
|--|---|--|--|
| Valuation date | July 1, 2015 | July 1, 2015 | July 1, 2015 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization method | Level Percent of Payroll, Closed | Level Percent of Payroll, Closed | Level Percent of Payroll, Closed |
| Single equivalent amortization period | 21 Years | 23 Years | 23 Years |
| Asset valuation method | 5 year smoothed market | 5 year smoothed market | 5 year smoothed market |
| <u>Actuarial assumptions:</u> | | | |
| Inflation | 3.25% | 3.25% | 3.25% |
| Investment rate of return, net of investment expense and including inflation | 8.0% | 8.0% | 8.0% |
| Projected salary increases, including inflation | 4.0% - 9.0% | 4.0% | 4.0% - 9.5% |
| Cost-of-living adjustments (COLA) | 2.50% with a floor benefit equal to 75% purchasing power of original benefit* | 2.50% with a floor benefit equal to 75% purchasing power of original benefit | 2.50% with a floor benefit equal to 60% purchasing power of original benefit |

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Continued)

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

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

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

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

The actuarial assumptions used in the July 1, 2015, valuations for the School, Judges, and Patrol plans are based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2011. The experience study report is dated August 20, 2012.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The School, Judges, and Patrol plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015, (see the discussion of the pension plan's investment policy) are summarized in the following table:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return * |
|----------------|-------------------|--|
| US Equity | 29.00% | 4.5% |
| Non-US Equity | 13.50% | 5.1% |
| Global Equity | 15.00% | 4.9% |
| Fixed Income | 30.00% | 2.1% |
| Private Equity | 5.00% | 6.7% |
| Real Estate | 7.50% | 4.6% |
| Total | 100.00% | |

* Geometric mean, net of investment expenses

Discount Rate. The discount rate used to measure the Total Pension Liability at June 30, 2015, was 8 percent. The discount rate is reviewed as part of the actuarial experience study, which was last performed for the period July 1, 2006, through June 30, 2011. The actuarial experience study is reviewed by the NPERS Board, which must vote to change the discount rate.

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

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

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--------------------------------|------------------------|----------------------------------|------------------------|
| Net Pension Liability/(Asset): | | | |
| School | \$ 2,478,248,969 | \$ 1,092,487,584 | \$ (59,903,705) |
| Judges | 17,695,316 | 1,295,226 | (12,848,252) |
| Patrol | 100,789,106 | 46,287,948 | 1,664,200 |

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Supp. 2015) directs the appointed members of the Nebraska Investment Council to do the following:

[A]ct with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems

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

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

NPERS' investments for the School Employees, Judges, and State Patrol Retirement Plans at June 30, 2015, are presented below. All investments are presented by investment type, and debt securities are presented with effective duration presented in years.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

**School Employees, Judges, and Patrol Retirement Plans Investments
at June 30, 2015**

| | Fair Value | Effective Duration |
|---|--------------------------|-------------------------------|
| Debt Securities | | |
| Bank Loans | \$ 230,260,726 | 0.16 |
| U.S. Treasury Notes and Bonds | 390,433,624 | 9.12 |
| Government Agency Securities | 11,706,669 | 12.41 |
| Guaranteed Investment Contracts | 942,960 | 2.93 |
| Corporate Bonds | 597,507,727 | 5.85 |
| International Bonds | 131,281,641 | 7.86 |
| Asset Backed Securities | 101,657,017 | 1.92 |
| Short-Term Investments | 214,059,780 | 0.11 |
| Commingled Debt | 578,237,300 | 5.16 |
| Mortgages | 459,286,770 | 3.58 |
| Municipal Bonds | 17,326,559 | 10.64 |
| Other Investments | | |
| Commingled Funds | 5,214,649,517 | |
| Private Equity Securities | 576,419,204 | |
| Equity Securities | 1,573,688,043 | |
| Options | (92,127) | |
| Private Real Estate Funds Trust | 300,403,652 | |
| Total Investments | 10,397,769,062 | |
| Invested Securities Lending Collateral | 190,073,197 | |
| Total | \$ 10,587,842,259 | |

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. The maximum exposure to any single investment grade issuer, excluding the U.S. government, its agencies or instrumentalities, or government-sponsored entities, is five percent, and the maximum exposure to a single issuer below investment grade is three percent. The minimum credit rating of a derivatives counterparty is A. NPERS' rated debt investments as of June 30, 2015, were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor's rating scale.

**School Employees, Judges, and State Patrol Retirement Plan Investments
at June 30, 2015**

| | Fair Value | Quality Ratings | | | | | | |
|---------------------|----------------|-----------------|--------------|---------------|--------------|------------|--------------|---------------|
| | | AAA | AA | A | BBB | BB | B | Unrated |
| Asset Backed | \$ 101,657,017 | \$ 51,328,671 | \$ 8,631,794 | \$ 16,914,906 | \$ 8,118,918 | \$ 457,520 | \$ 5,498,969 | \$ 10,706,239 |
| Bank Loans | 230,260,726 | - | - | - | - | - | - | 230,260,726 |
| Commingled Debt | 578,237,300 | - | - | - | - | - | - | 578,237,300 |
| Corporate Bonds | 597,507,727 | 23,390,179 | 24,714,681 | 147,609,066 | 278,175,385 | 84,414,492 | 24,358,702 | 14,845,222 |
| Government Agency | 11,706,669 | - | 9,260,647 | 266,931 | - | 237,498 | 1,407,026 | 534,567 |
| International Bonds | 131,281,641 | 19,998,891 | 34,788,461 | 34,657,965 | 33,044,433 | 1,276,193 | 559,300 | 6,956,398 |
| Mortgages | 459,286,770 | 32,322,832 | 19,322,706 | 10,472,609 | 7,906,158 | 3,155,319 | 1,545,144 | 384,562,002 |
| Municipal Bonds | 17,326,559 | 3,049,500 | 9,469,086 | 1,267,080 | 3,245,583 | 295,310 | - | - |
| Short-Term | 214,059,780 | - | - | - | 1,049,876 | - | - | 213,009,904 |

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.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

At June 30, 2015, NPERS had no debt security investments, from a single entity, that comprised more than five percent of total investments.

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

School Employee, Judges, and State Patrol Retirement Plans
Foreign Currency at June 30, 2015

| | Asset | | | | | | | |
|-------------------|----------------------|--------------------|----------------------|------------------------|-----------|----------|-------------------|---------------------------|
| | Backed Securities | Corporate Bonds | Equity Securities | International Bonds | Mortgages | Options | Private Equity | Short-Term Investments |
| Australian Dollar | \$ - | \$ 709,036 | \$ 14,558,013 | \$ 3,538,061 | \$ - | \$ - | \$ 69,781 | \$ 801,562 |
| Brazilian Real | - | 1,901,451 | 3,303,558 | 159,953 | - | - | - | 224,030 |
| Canadian Dollar | - | - | 19,443,036 | 6,806,500 | - | - | - | 10,764 |
| Chilean Peso | - | 651,371 | - | - | - | - | - | - |
| Colombian Peso | - | 369,013 | - | 68,580 | - | - | - | - |
| Czech Koruna | - | - | 597,108 | 232,494 | - | - | - | 1 |
| Danish Krone | - | 310,172 | 6,902,023 | 888,796 | - | - | - | - |
| Euro Currency | 1,749,532 | 36,234,525 | 232,108,820 | 43,793,229 | 1,519,919 | (12,013) | 31,167,515 | 5,563,920 |
| Hong Kong Dollar | - | - | 19,802,319 | - | - | - | - | 195,198 |
| Hungarian Forint | - | - | 182,213 | - | - | - | - | - |
| Indian Rupee | - | 2,219,528 | - | - | - | - | - | - |
| Indonesian Rupiah | - | - | 639,938 | - | - | - | - | 102,493 |
| Japanese Yen | - | (1,192,889) | 149,485,993 | 27,081,042 | - | - | - | 354,871 |
| Malaysian Ringgit | - | - | 1,433,254 | 369,870 | - | - | - | 45,763 |

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

| | Asset | | | | | | | |
|--------------------|----------------------|---------------------|-----------------------|------------------------|---------------------|--------------------|---------------------|---------------------------|
| | Backed Securities | Corporate Bonds | Equity Securities | International Bonds | Mortgages | Options | Private Equity | Short-Term Investments |
| Mexican Peso | - | 1,477,389 | 5,721,864 | 4,143,794 | - | - | - | 831,260 |
| New Israeli Sheqel | - | - | - | 223,662 | - | - | - | 1 |
| New Zealand Dollar | - | - | 51,889 | 320,469 | - | - | - | 136,694 |
| Norwegian Krone | - | - | 3,419,683 | 649,470 | - | - | - | 65,904 |
| Philippine Peso | - | - | - | 1,739,341 | - | - | - | 2,541 |
| Polish Zloty | - | - | 2,173,281 | 369,256 | - | - | - | 18 |
| Pound Sterling | - | 7,171,662 | 104,236,565 | 22,636,337 | 101,956 | - | - | 622,605 |
| Singapore Dollar | - | - | 18,627,577 | 773,761 | - | - | - | 73,593 |
| South African Rand | - | - | 3,619,974 | 454,221 | - | - | - | - |
| South Korean Won | - | - | 13,647,720 | 3,181,069 | - | - | - | 251,484 |
| Swedish Krona | - | - | 31,995,159 | - | - | - | 3,735,359 | - |
| Swiss Franc | - | - | 98,310,762 | 1,977,139 | - | - | - | 171,920 |
| Thailand Baht | - | - | 789,094 | - | - | - | - | - |
| Turkish Lira | - | - | 95,374 | 222,405 | - | - | - | 2,233 |
| Total | <u>\$1,749,532</u> | <u>\$49,851,258</u> | <u>\$ 731,145,217</u> | <u>\$ 119,629,449</u> | <u>\$ 1,621,875</u> | <u>\$ (12,013)</u> | <u>\$34,972,655</u> | <u>\$ 9,456,855</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

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 28 to 42 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities but does not indemnify against the default by an issuer of a security held in the short-term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at June 30, 2015, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT JUNE 30, 2015

| Derivative | Change in Fair Value | Fair Value | Notional |
|---------------------------|-------------------------|--------------|---------------|
| Credit Default Swaps | \$ (3,826,127) | \$ (519,301) | \$ 42,933,305 |
| Fixed Income Futures | 2,105,413 | - | (104,395,839) |
| Fixed Income Options | 229,970 | (4,957) | (109,018,434) |
| Foreign Options | 392,604 | (158,269) | (24,357,467) |
| Futures Options | 318,518 | (87,170) | (508,727) |
| FX Forwards | 12,860,823 | 194,295 | 403,944,801 |
| Fixed Interest Rate Swaps | 1,291,524 | 3,215,702 | 240,388,115 |
| Rights | 57,054 | - | - |
| Warrants | (24) | 293 | 4,883 |

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2015, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the Notional amount for Futures and Options was calculated as contract size times the number of contracts.

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

The aggregate fair value of derivative instruments in asset positions at June 30, 2015, was \$5,885,264. 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 \$5,885,264.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

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

Foreign currency risk for derivative instruments at June 30, 2015, are as follows:

**DERIVATIVES FOREIGN CURRENCY
AT JUNE 30, 2015**

| Currency | Options | Credit Default Swaps | Fixed Interest Rate Swaps | Forward Contracts |
|--------------------|------------------|----------------------|---------------------------|-------------------|
| Australian Dollar | - | - | - | (68,041) |
| Brazilian Real | - | - | - | (22) |
| Canadian Dollar | - | - | - | (1,875) |
| Danish Krone | - | - | - | 732 |
| Euro Currency | (131,901) | 20,625 | 55,193 | 329,314 |
| Indian Rupee | - | - | - | 13,589 |
| Japanese Yen | - | - | - | 145,875 |
| Malaysian Ringgit | - | - | - | (923) |
| Mexican Peso | - | - | (488,170) | (87,406) |
| Norwegian Krone | - | - | - | 274 |
| Polish Zloty | - | - | - | (1,423) |
| Pound Sterling | - | - | - | (141,342) |
| New Israeli Sheqel | - | - | - | (425) |
| New Russian Ruble | - | - | - | (4,203) |
| Singapore Dollar | - | - | - | 1,278 |
| South African Rand | - | - | - | 159 |
| South Korean Won | - | - | - | 3,373 |
| Swedish Krona | - | - | - | (32,163) |
| Swiss Franc | - | - | - | 35,371 |
| Thailand Baht | - | - | - | 1,820 |
| Turkish Lira | - | - | - | 333 |
| Total | (131,901) | 20,625 | (432,977) | 194,295 |

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. **Investments** (Continued)

Synthetic Guaranteed Investment Contracts (SGICs). In the State Patrol Deferred Retirement Option Plan (DROP), as part of the Defined Contribution Plans, employees are eligible to participate in SGICs. The contracts provided an average credit rating of 2.73 percent during the fiscal year 2015. The fair value of those contracts was \$934,851, and the contract value was \$912,401.

| <u>SGIC Components</u> | <u>Fair Value</u> |
|------------------------|-------------------|
| Underlying Investments | \$ 934,851 |
| Wrap Contract | - |
| Total | <u>\$ 934,851</u> |

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

(Continued on Next Page)

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

| | Effective Duration | Fair Value | Investments Underlying SGICs Quality Ratings at June 30, 2015 | | | | |
|---------------------------------|-----------------------|-------------------|---|--------|---------|---------|---------|
| | | | AAA | AA | A | BBB | Unrated |
| Asset Backed Securities | 1.60 | \$ 120,323 | \$ 120,323 | \$ - | \$ - | \$ - | \$ - |
| Corporate Bonds | 3.16 | 372,675 | 2,754 | 52,093 | 193,561 | 118,288 | 5,979 |
| Government Agency Securities | 2.70 | 102,826 | - | 90,991 | 3,435 | - | 8,400 |
| International Bonds | 1.85 | 15,166 | 4,883 | 10,283 | - | - | - |
| Mortgages | 2.67 | 156,275 | 48,502 | 3,908 | 2,008 | - | 101,857 |
| Short-Term Investments | 0.00 | 26,346 | - | - | - | - | 26,346 |
| US Treasury Notes | 4.95 | 141,240 | 56,314 | - | - | - | 84,926 |
| | | <u>\$ 934,851</u> | | | | | |

Other Receivables/Other Payables. Other receivables consisted of receivables for investments sold, receivables for foreign exchanges, tax reclaim receivables, unrealized appreciation/depreciation on income receivables, unrealized appreciation/depreciation on investment receivables, unrealized appreciation/depreciation on foreign exchange receivables, and other receivables as recorded by the custodial bank. Other payables consisted of payables for investments purchased, payables for foreign currency purchased, unrealized appreciation/depreciation on investments payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2015, but the security had not settled.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Concluded)

Money-Weighted Rate of Return. For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.77 percent for the School Plan, 3.75 percent for the Judges Plan, and 4.05 percent for the Patrol Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

5. Compensated Absences

The liability for the vested portion of compensated absences for each Plan at June 30, 2015, is as follows:

| | School Employees | Judges | State Patrol |
|--------------|---------------------|----------|-----------------|
| Annual Leave | \$ 129,629 | \$ 1,738 | \$ 1,661 |
| Sick Leave | 132,323 | 1,775 | 1,695 |
| | \$ 261,952 | \$ 3,513 | \$ 3,356 |

6. Payments to Omaha Public Schools

Neb. Rev. Stat. § 79-916(2) (Reissue 2014) requires an annual payment, for two percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Net Position in State Contributions additions and as Other Deductions for the July 2015 appropriation for the fiscal year ended June 30, 2015. Additionally, on the Statement of Plan Net Position, the amount is included as a Contribution Receivable and a liability for contributions due to OPS, as the appropriation was not received until July 2015.

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2014). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), which then makes the actual service annuity payments to the Omaha retirees. In accordance with § 79-916, a separate Service Annuity Fund (Fund) was established for such payments, and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the fund (\$10,375,381), consisting almost entirely of investments, are included in the Statement of Plan Net Position at June 30, 2015. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Position.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Payments to Omaha Public Schools (Concluded)

Deductions from the School Plan for the year ended June 30, 2015, were as follows:

| | School Employees |
|--------------------------------|---------------------|
| Omaha 2% Appropriation | \$ 6,452,650 |
| Omaha Service Annuity Payments | <u>1,904,983</u> |
| Total Other Deductions | \$ 8,357,633 |

7. Contingencies

Risk Management. NPERS is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. NPERS, as part of the primary government for the State, participates in the State's risk management program. The Risk Management Division is responsible for administering the State's insurance Program. The State is self-insured for any loss and currently purchases excess insurance for property, automobile, crime, and terrorism claims. The State has chosen to purchase insurance for:

- A. Motor vehicle liability is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident. 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.
- B. Crime coverage has a limit of \$31,000,000 for each loss and a \$25,000 self-insured retention per incident, subject to specific conditions, limits, and exclusions.
- C. Real and personal property is covered on a blanket basis for losses up to \$251,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10,000,000 for 120 days and after 120 days, if the property has not been reported, the limit decreases to \$5,000,000. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS – Risk Management Division.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. Contingencies (Concluded)

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

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

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015, are summarized as follows:

| | School Employees | Judges | State Patrol |
|-----------------------------|---------------------|----------|--------------|
| Beginning Balance | \$ 239,199 | \$ 3,636 | \$ 3,457 |
| Increases (Decreases) | 22,753 | (123) | (101) |
| Ending Balance | \$ 261,952 | \$ 3,513 | \$ 3,356 |
| Amounts Due Within One Year | \$ 23,576 | \$ 316 | \$ 302 |

9. School Employee Contributions

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling \$2,685,163. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Reissue 2014), Neb. Rev. Stat. § 79-933.05 (Reissue 2014), Neb. Rev. Stat. § 79-933.06 (Reissue 2014), and Neb. Rev. Stat. § 79-933.08 (Reissue 2014).

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--------------------------------|----------------------|-------------------|-------------|-------------------|
| School Employees: | | | | |
| Equipment | \$ 4,827,813 | \$ - | \$ 15,981 | \$ 4,811,832 |
| Less: Accumulated Depreciation | 4,822,610 | 1,274 | 15,981 | 4,807,903 |
| Total Capital Assets, Net | <u>\$ 5,203</u> | <u>\$ (1,274)</u> | <u>\$ -</u> | <u>\$ 3,929</u> |
| Judges: | | | | |
| Equipment | \$ 66,134 | \$ - | \$ 218 | \$ 65,916 |
| Less: Accumulated Depreciation | 66,062 | 17 | 218 | 65,861 |
| Total Capital Assets, Net | <u>\$ 72</u> | <u>\$ (17)</u> | <u>\$ -</u> | <u>\$ 55</u> |
| State Patrol: | | | | |
| Equipment | \$ 66,134 | \$ - | \$ 218 | \$ 65,916 |
| Less: Accumulated Depreciation | 66,062 | 17 | 218 | 65,861 |
| Total Capital Assets, Net | <u>\$ 72</u> | <u>\$ (17)</u> | <u>\$ -</u> | <u>\$ 55</u> |

11. Subsequent Events

State Patrol Additional Contributions: Neb. Rev. Stat. § 81-2017(3) (Reissue 2014) defines actuarially required contributions. As of July 1, 2015, the actuarially determined additional contribution requirement for the State Patrol Plan is \$2,725,738.

School Employee Additional Contributions: Neb. Rev. Stat. § 79-966.01 (Reissue 2014) defines actuarially required contributions. As of July 1, 2015, the actuarially determined additional contribution requirement for the School Employees Plan is \$0. Furthermore, as of that same date, the additional contribution requirement for the Omaha Public Schools Retirement Plan is \$997,118.

Judges Additional Contributions: Neb. Rev. Stat. § 24-705 (Cum. Supp. 2014) defines actuarially required contributions. As of July 1, 2015, the actuarially determined additional contribution requirement for the Judges Employees Plan is \$0.

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

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

11. Subsequent Events (Concluded)

LB 468, which was passed by the 2015 Nebraska Legislature, made changes to the benefit structure for judges who became members on or after July 1, 2015. Changes included calculating the final salary based on the highest five years rather than the highest three years and a cost-of living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board's discretion, up to an additional 1.5% if the system is more than 100% funded. Additionally, the member contribution rate for those hired on or after July 1, 2015, was increased to 10% of pay. LB 468 also increased the amount of court fees directed to the Judges Retirement Plan, with increases phased-in over two years.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE SCHOOL DISTRICTS' NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT PLAN
AS OF JUNE 30, 2015
(Unaudited)

| | 2015 | 2014 |
|---|--------------------------|--------------------------|
| Total Pension Liability | | |
| Service cost | \$ 214,673,003 | \$ 202,803,787 |
| Interest | 814,387,820 | 782,055,188 |
| Benefit term changes | - | - |
| Differences between expected and actual experience | (174,678,979) | (77,484,140) |
| Assumption changes | - | - |
| Benefit payments, including member refunds | (502,190,816) | (466,161,224) |
| Net change in Total Pension Liability | <u>352,191,028</u> | <u>441,213,611</u> |
| Total Pension Liability - beginning | <u>10,426,112,609</u> | <u>9,984,898,998</u> |
| Total Pension Liability - ending (a) | <u>\$ 10,778,303,637</u> | <u>\$ 10,426,112,609</u> |
| Plan Fiduciary Net Position | | |
| Employer contributions | \$ 173,013,848 | \$ 167,710,406 |
| Non-employer contributions* | | |
| State Appropriation contributions | 35,493,591 | 34,703,519 |
| Omaha Service Annuity contributions | 997,858 | 909,638 |
| Employee contributions | 174,797,341 | 169,200,529 |
| Net investment income | 355,847,514 | 1,454,496,772 |
| Benefit payments, including member refunds | (502,190,816) | (466,161,224) |
| Administrative expenses | (3,153,883) | (2,861,508) |
| Other changes | 28,877 | 30,561 |
| Net change in Plan Fiduciary Net Position | <u>234,834,330</u> | <u>1,358,028,693</u> |
| Plan Fiduciary Net Position - beginning | <u>9,450,981,723</u> | <u>8,092,953,030</u> |
| Plan Fiduciary Net Position - ending (b) | <u>\$ 9,685,816,053</u> | <u>\$ 9,450,981,723</u> |
| Net Pension Liability - ending (a) - (b) | <u>\$ 1,092,487,584</u> | <u>\$ 975,130,886</u> |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 89.86% | 90.65% |
| Covered payroll | \$ 1,751,542,327 | \$ 1,697,851,809 |
| Employers' Net Pension Liability as a percentage of covered payroll | 62.37% | 57.43% |

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

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE JUDGES' NET PENSION LIABILITY
JUDGES RETIREMENT PLAN
AS OF JUNE 30, 2015
(Unaudited)

| | 2015 | 2014 |
|---|-----------------------|-----------------------|
| Total Pension Liability | | |
| Service cost | \$ 4,759,455 | \$ 4,257,200 |
| Interest | 12,170,797 | 11,567,915 |
| Benefit term changes | - | - |
| Differences between expected and actual experience | (2,613,808) | 41,752 |
| Assumption changes | - | - |
| Benefit payments, including member refunds | (8,547,892) | (8,121,996) |
| Net change in Total Pension Liability | <u>5,768,552</u> | <u>7,744,871</u> |
| Total Pension Liability - beginning | 156,326,683 | 148,581,812 |
| Total Pension Liability - ending (a) | <u>\$ 162,095,235</u> | <u>\$ 156,326,683</u> |
| Plan Fiduciary Net Position | | |
| Employer contributions | | |
| Court fees | \$ 2,977,205 | \$ 3,102,864 |
| State Appropriations | 94,000 | 803,383 |
| Employee contributions | 1,610,529 | 1,518,801 |
| Net investment income | 5,958,799 | 24,543,298 |
| Benefit payments, including member refunds | (8,547,892) | (8,121,996) |
| Administrative expenses | (82,746) | (78,263) |
| Other changes | 3 | 45 |
| Net change in Plan Fiduciary Net Position | <u>2,009,898</u> | <u>21,768,132</u> |
| Plan Fiduciary Net Position - beginning | 158,790,111 | 137,021,979 |
| Plan Fiduciary Net Position - ending (b) | <u>160,800,009</u> | <u>158,790,111</u> |
| Net Pension Liability (Net Asset) - ending (a) - (b) | <u>\$ 1,295,226</u> | <u>\$ (2,463,428)</u> |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 99.20% | 101.58% |
| Covered payroll | \$ 21,586,829 | \$ 20,099,647 |
| Employers' Net Pension Liability as a percentage of covered payroll | 6.00% | (12.26%) |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE STATE PATROL'S NET PENSION LIABILITY
STATE PATROL RETIREMENT PLAN
AS OF JUNE 30, 2015
(Unaudited)

| | 2015 | 2014 |
|---|-----------------------|-----------------------|
| Total Pension Liability | | |
| Service cost | \$ 7,562,642 | \$ 8,173,815 |
| Interest | 31,349,873 | 30,164,990 |
| Benefit term changes | - | - |
| Differences between expected and actual experience | (10,658,914) | (3,787,974) |
| Assumption changes | - | - |
| Benefit payments, including member refunds | (19,458,540) | (20,010,413) |
| Net change in Total Pension Liability | <u>8,795,061</u> | <u>14,540,418</u> |
| Total Pension Liability - beginning | <u>401,415,518</u> | <u>386,875,100</u> |
| Total Pension Liability - ending (a) | <u>\$ 410,210,579</u> | <u>\$ 401,415,518</u> |
| Plan Fiduciary Net Position | | |
| Employer contributions | \$ 8,646,426 | \$ 8,752,627 |
| Employee contributions | 4,180,263 | 4,134,598 |
| Net investment income | 13,332,650 | 54,950,250 |
| Benefit payments, including member refunds | (19,458,540) | (20,010,413) |
| Administrative expenses | (116,679) | (121,153) |
| Other changes | 21,619 | 21,199 |
| Net change in Plan Fiduciary Net Position | <u>6,605,739</u> | <u>47,727,108</u> |
| Plan Fiduciary Net Position – beginning | <u>357,316,892</u> | <u>309,589,784</u> |
| Plan Fiduciary Net Position - ending (b) | <u>\$ 363,922,631</u> | <u>\$ 357,316,892</u> |
| Net Pension Liability - ending (a) - (b) | <u>\$ 46,287,948</u> | <u>\$ 44,098,626</u> |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 88.72% | 89.01% |
| Covered payroll | \$ 26,294,294 | \$ 25,624,081 |
| Employers' Net Pension Liability as a percentage of covered payroll | 176.04% | 172.10% |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 YEARS
(Unaudited)

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Actuarially determined contribution | \$ 152,268,397 | \$ 174,157,865 | \$ 227,859,188 | \$ 192,478,407 | \$ 177,075,137 | \$ 142,658,110 | \$ 126,118,323 | \$ 117,201,909 | \$ 118,069,619 | \$ 130,145,808 |
| Actual non-employer contributions | | | | | | | | | | |
| Actual State Appropriations* | 35,493,591 | 34,703,519 | 16,874,535 | 22,400,533 | 21,907,948 | 21,380,352 | 20,620,548 | 15,832,941 | 15,219,871 | 28,056,703 |
| Actual Omaha Appropriations** | 997,858 | 909,638 | 969,396 | 1,030,017 | 967,145 | - | - | - | - | - |
| Actual employer contributions | 173,013,848 | 167,710,406 | 161,922,831 | 145,582,040 | 135,328,339 | 128,845,427 | 110,028,942 | 105,977,554 | 107,573,519 | 102,089,105 |
| Total contributions | \$ 209,505,297 | \$ 203,323,563 | \$ 179,766,762 | \$ 169,012,590 | \$ 158,203,432 | \$ 150,225,779 | \$ 130,649,490 | \$ 121,810,495 | \$ 122,793,390 | \$ 130,145,808 |
| Annual contribution deficiency (excess) | \$ (57,236,900) | \$ (29,165,698) | \$ 48,092,426 | \$ 23,465,817 | \$ 18,871,705 | \$ (7,567,669) | \$ (4,531,167) | \$ (4,608,586) | \$ (4,723,771) | \$ - |
| Covered-employee payroll*** | \$ 1,751,542,327 | \$ 1,697,851,809 | \$ 1,664,793,714 | \$ 1,641,692,866 | \$ 1,618,218,049 | \$ 1,572,992,968 | \$ 1,496,422,343 | \$ 1,423,721,456 | \$ 1,355,069,143 | \$ 1,285,983,738 |
| Actual contributions as a percentage of covered-employee payroll*** | 11.96% | 11.98% | 10.80% | 10.30% | 9.78% | 9.55% | 8.73% | 8.56% | 9.06% | 10.12% |

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

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

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

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
STATE PATROL RETIREMENT PLAN
LAST 10 YEARS
(Unaudited)

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Actuarially determined employer contribution | \$ 8,073,824 | \$ 8,752,627 | \$ 9,768,585 | \$ 7,774,506 | \$ 7,563,126 | \$ 6,260,122 | \$ 5,384,789 | \$ 4,855,700 | \$ 5,058,621 | \$ 5,081,930 |
| Actual employer contributions** | \$ 8,073,824 | \$ 8,752,627 | \$ 7,515,905 | \$ 7,774,506 | \$ 5,956,747 | \$ 6,260,122 | \$ 5,384,789 | \$ 4,855,700 | \$ 5,058,621 | \$ 5,081,930 |
| Annual contribution deficiency (excess) | \$ - | \$ - | \$ 2,252,680 | \$ - | \$ 1,606,379 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll* | \$26,294,294 | \$25,624,081 | \$26,901,711 | \$27,390,926 | \$27,987,900 | \$27,624,747 | \$28,386,013 | \$27,839,200 | \$26,204,413 | \$24,454,293 |
| Actual contributions as a percentage of covered-employee payroll* | 30.71% | 34.16% | 27.94% | 28.38% | 21.28% | 22.66% | 18.97% | 17.44% | 19.30% | 20.78% |

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

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

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
JUDGES RETIREMENT PLAN
LAST 10 YEARS
(Unaudited)

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Actuarially determined employer contribution | \$ 3,727,054 | \$ 3,906,247 | \$ 3,180,367 | \$ 3,483,614 | \$ 3,579,661 | \$ 3,615,291 | \$ 3,491,335 | \$ 3,353,208 | \$ 3,207,953 | \$ 3,120,253 |
| Actual non-employer contributions | | | | | | | | | | |
| Court Fees | 2,977,205 | 3,102,864 | 3,180,367 | 3,411,370 | 3,507,417 | 3,543,047 | 3,419,091 | 3,280,964 | 3,135,709 | 3,048,009 |
| State Contributions | 94,000 | 803,383 | - | 72,244 | 72,244 | 72,244 | 72,244 | 72,244 | 72,244 | 72,244 |
| Actual employer contributions | <u>3,071,205</u> | <u>3,906,247</u> | <u>3,180,367</u> | <u>3,483,614</u> | <u>3,579,661</u> | <u>3,615,291</u> | <u>3,491,335</u> | <u>3,353,208</u> | <u>3,207,953</u> | <u>3,120,253</u> |
| Annual contribution deficiency (excess) | \$ 655,849 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll* | \$ 21,586,829 | \$ 20,099,647 | \$ 19,005,478 | \$ 18,182,238 | \$ 18,773,203 | \$ 18,373,339 | \$ 17,990,072 | \$ 17,003,921 | \$ 16,422,894 | \$ 16,285,137 |
| Actual contributions as a percentage of covered-employee payroll* | 14.23% | 19.43% | 16.73% | 19.16% | 19.07% | 19.68% | 19.41% | 19.72% | 19.53% | 19.16% |

Note: Actuarially determined employer contributions, actual employer contributions and covered-employee payroll prior to 2013 was produced by the prior actuary.

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

For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
 SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT RETURNS
 AS OF JUNE 30, 2015
 (Unaudited)

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Years

School Employees Retirement Plan

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

- 2014: As scheduled, the State contribution rate increased from 1% of covered payroll to 2%.
- 2013: Legislative Bill (LB) 553 (2013) increased the State's payroll-related contribution from 1% to 2% of pay, effective July 1, 2014. LB 553 also made some changes to the benefit structure for members hired on or after July 1, 2013 (Tier 2), including changing the period over which to determine final average salary to the highest 60 months rather than the current highest 36 months of service and changing the maximum cost of living adjustment from 2.5% to 1%. LB 553 also removed the scheduled reduction in the employee contribution rate in 2017. In addition, it required the use of the Entry Age Normal, level percent of payroll, method to determine the costs for the Omaha State Service Annuity and changed the amortization of the unfunded actuarial accrued liability to be based on payments determined as a level percent of payroll instead of a level dollar amount.
- 2011: Under LB 382 (2011), the member contribution rate increased from 8.28% to 8.88% on September 1, 2011. Effective September 1, 2012, the member contribution rate was scheduled to increase to 9.78% and then decrease to 7.28% effective September 1, 2017. The employer contribution rate match remained unchanged at 101% of the member contribution rate. The current State of Nebraska contribution rate of 1% remained in effect until July 1, 2017, at which time it was scheduled to decrease to 0.7%.
- 2009: Under LB 187 (2009), from September 1, 2009, to September 1, 2014, the member contribution rate was scheduled to increase from 7.28% to 8.28% and the State match to increase from 0.7% to 1.0% of covered pay. On September 1, 2014, the member contribution rate was scheduled to return to 7.28% and the State match to 0.7%.
- 2007: Per LB 596 (2007), a one-time adjustment was made to the annuities of School members so that the current annuity was not less than 85% of the original annuity amount adjusted by the CPI-W. The statutory member contribution rate decreased to 7.28% as of September 1, 2007. Under existing statutes, the rate was scheduled to drop to 7.25% on September 1, 2007.
- 2006: Per LB 1019 (2006), the unfunded actuarial-accrued liability was reinitialized as of July 1, 2006, and amortized over a closed 30-year period.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

The following changes were made in the actuarial assumptions:

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.00% for less than one year of service to 4.00% at 40 years of service. Prior valuation rates graded from 7.46% for less than one year to 4.55% at 40 years of service.
- Retirement rates are based on age and retirement eligibility. One hundred percent retirement age was extended to age 80 from age 70. Unreduced rates were decreased at age 63.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement males rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a one year age setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).
- Disabled mortality was changed to the 1983 Railroad Retirement Board Disabled Annuitants Mortality setback one year from the 1983 Railroad Retirement Board Disabled Annuitants Mortality. The prior assumption was based on the same table with no setback.
- Termination rates are service based and were decreased from the prior valuation based on actual experience.
- Disability rates were decreased by 50% from the prior valuation.
- Price inflation assumption was lowered to 3.25% from 3.50%.
- Economic productivity assumption was lowered to 0.75% from 1.00%.

July 1, 2007, valuation:

- Salary increase assumption was converted from age-based to service-based, grading down from 7.50% for less than one year of service to 4.50% after 40 years of service.
- Retirement rates were increased at age 55 and decreased for ages 57 through age 65.
- Withdrawal rates were converted from age-and-service-based to service-based only and grade down from 27% (males) and 32% (females) for employees with less than one year of service to 1% (males) and 3% (females) and back up to 10% (males) and 7% (females) at 34 (or more) years of service.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

- Existing disability rates were reduced by 50% at each age.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a two-year age setback to the 1994 GAM table, projected to 2010.

Judges Retirement Plan

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

- 2015: LB 468 (2015) made changes to the benefit structure for judges who become members on or after July 1, 2015, including the calculation of final average salary based on the highest five years rather than the highest three years of salary and a cost-of-living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board's discretion, up to an additional 1.5% if the System is more than 100% funded. In addition, the member contribution rate for those hired on or after July 1, 2015, was increased to 10% of pay. LB 468 also increased the amount of court fees directed to fund the Judges Retirement System with the increases phased in over two years. Ultimately, in fiscal year 2018, the additional funding is estimated to be \$1.3 million. Due to the valuation date of July 1, 2015, the change to the benefit structure had no impact on the valuation results.
- 2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. The court fee designated for the Judges Retirement System was scheduled to decrease from \$6 to \$5 on July 1, 2014. LB 306 (2013) removed the language to decrease the court fees, so the court fee in future years remains at \$6. The passage of LB 414 (2009) increased the member contribution rate by 1%, but this increase was scheduled to be removed July 1, 2014. LB 306 (2013) removed the sunset provision on the increase in the member contribution rate, thereby retaining the higher contribution rates.
- 2009: LB 414 (2009) amended the plan provisions to increase all member contribution rates by 1% and increase the court fees from \$5 to \$6 per case.
- 2008: LB 1147 (2008) amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit is reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit is further reduced on an actuarially equivalent basis for retirement before age 62 to as early as age 55.
- 2006: Per LB 1019 (2006), Neb. Rev. Stat. § 24-703(9) was amended to reinitialize the unfunded actuarial accrued liability as of July 1, 2006, and amortized over a 30-year period.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

The following changes were made in the actuarial assumptions:

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement males rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a one-year setback, projected to 2015.
- Deferred vested members were changed to assume they elected the greater of the present value of an annuity at age 63 or a refund of contributions.
- Consumer price inflation was lowered to 3.25% from 3.50%.
- Economic productivity was lowered to 0.75% from 1.00%.

July 1, 2008, valuation:

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

July 1, 2007, valuation:

- Salary increases were lowered from an assumed 5.00% annual increase to a 4.50% annual increase at each age.
- Retirement rates were decreased at ages 55 through 61, increased at ages 62 through 64, and decreased at ages 65 through 71.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a two-year setback to the 1994 GAM table, projected to 2010.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

State Patrol Retirement Plan

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

- 2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. As scheduled in State statute, the employee and employer contribution rate both decreased from 19% of pay to 16%.
- 2011: Under LB 382 (2011), both the member and employer contribution rates were increased from 16% to 19% on July 1, 2011. Effective July 1, 2013, both the member and employer contribution rates were scheduled to decrease to 16%.
- 2010: As scheduled, the member and employer contribution rates increased to 16% each.
- 2009: Under LB 188 (2009), the member contribution rate increased from 13% to 15% on July 1, 2009. The employer contribution rate remained unchanged at 15%. Effective July 1, 2010, both the member and employer contribution rates increased to 16%.
- 2008: LB 324 (2008) added a Deferred Retirement Option Plan (DROP) for members who are at least 50 and have 25 years of service. The retirement rates used in the valuation were increased to 100% for members who are eligible for the DROP.
- 2007: LB 324 (2007) retained the contribution rates of 13% for members and 15% for employers. Under existing statutes, the rates were scheduled to drop to 12% for members and 13% for employers on July 1, 2007.
- 2006: Per LB 1019 (2006), the unfunded actuarial accrued liability was reinitialized as of July 1, 2006, and amortized over a closed 30-year period.

The following changes were made in the actuarial assumptions:

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.50% for less than one year of service to 4.00% at 30 years of service. Prior valuation rates graded from 9.00% for less than one year to 4.50% at 25 years of service.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Concluded)

- Retirement rates are based on age and retirement eligibility. The rates were increased for early retirement (reduced benefits available at 50 years of age and 10 years of service) and decreased for normal retirement (unreduced benefits available at 55 years of age and 10 years of service).
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement males rates were 65% of rates, and female rates were 50% of rates) to the 1994 GAM table, with a one-year setback, projected to 2015.
- The assumption to value deferred vested members was changed to assume they elect the greater of the present value of an annuity at earliest unreduced eligibility or a refund of contributions.
- Consumer price inflation was lowered from 3.50% to 3.25%.
- Economic productivity was lowered from 1.00% to 0.75%.

July 1, 2007, valuation:

- Salary increases were lowered from an assumed 5.00% annual increase to a 4.50% annual increase at each age.
- Retirement rates were decreased at ages 55 through 61, increased at ages 62 through 64, and decreased at ages 65 through 71.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a two-year setback to the 1994 GAM table, projected to 2010.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF ADMINISTRATIVE EXPENSES
FISCAL YEAR ENDED JUNE 30, 2015

| | <u>School Employees</u> | <u>Judges</u> | <u>State Patrol</u> | <u>Total</u> |
|--|-----------------------------|------------------|-------------------------|---------------------|
| Personnel | | | | |
| Personal Services | \$ 2,026,267 | \$ 27,333 | \$ 27,435 | \$ 2,081,035 |
| Travel | 15,668 | 147 | 147 | 15,962 |
| Professional and Technical Services | | | | |
| Professional | 64,274 | 351 | 23,637 | 88,262 |
| Actuary | 70,606 | 38,252 | 43,889 | 152,747 |
| Computer Support Services | 350,075 | 4,966 | 5,057 | 360,098 |
| Accounting and Auditing | 159,191 | 1,656 | 1,656 | 162,503 |
| Communications | | | | |
| Telephone | 42,811 | 605 | 515 | 43,931 |
| Printing | 38,968 | 292 | 374 | 39,634 |
| Other Expenses | | | | |
| Postage | 96,746 | 746 | 1,388 | 98,880 |
| Supplies | 29,215 | 312 | 313 | 29,840 |
| Hardware and Software | 24,124 | 5,893 | 9,558 | 39,575 |
| Repairs | 41,478 | 592 | 592 | 42,662 |
| Rent | 97,032 | 1,353 | 1,353 | 99,738 |
| Miscellaneous | 97,428 | 248 | 765 | 98,441 |
| Total Administrative Expenses | <u>\$ 3,153,883</u> | <u>\$ 82,746</u> | <u>\$ 116,679</u> | <u>\$ 3,353,308</u> |



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

Independent Auditor's Report

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, and have issued our report thereon dated February 22, 2016. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

February 22, 2016



Zachary Wells, CPA, CISA
Audit Manager