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

PENSION TRUST FUNDS
OF THE STATE OF NEBRASKA

JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

Issued on September 10, 2012

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TABLE OF CONTENTS

BACKGROUND

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

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

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

Two appointed members must meet the following requirements:

- Shall not be an employee of the State of Nebraska or any of its political subdivisions; and
- Shall have at least ten years of experience in the management of a public or private organization or have at least five years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

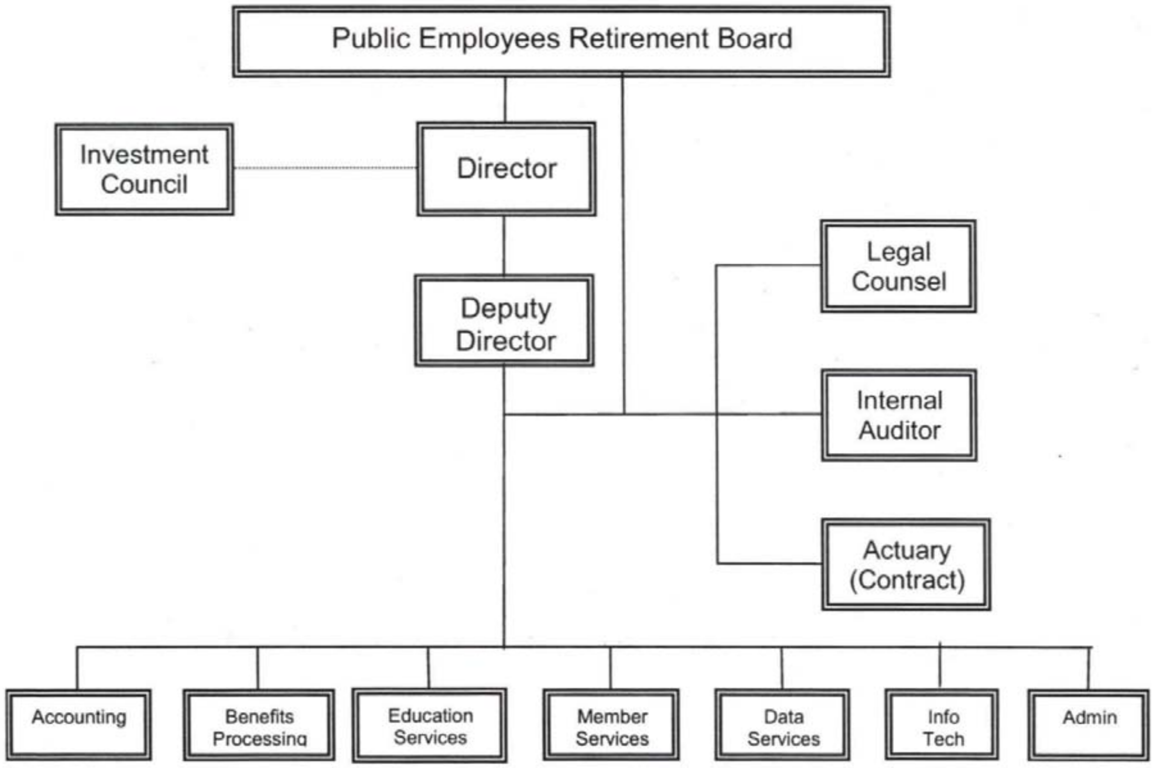
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

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

MISSION STATEMENT

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

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held August 22, 2012, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

NAME	TITLE
Phyllis Chambers	Director
Denis Blank	Board Chair
Glenn Elwell	Board Member
Randy Gerke	Deputy Director
Teresa Zulauf	Internal Audit Manager
Miden Ebert	Retirement Plan Manager
Dennis Rohren	Accountant III
Melissa Jochum	Internal Auditor
Christine Ford	Internal Auditor
Melissa Mendoza	Retirement Specialist II
Maria Davis	Retirement Specialist II

SUMMARY OF COMMENTS

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

1. ***Benefit Audit Procedures:*** NPERS lacked adequate procedures to ensure a proper segregation of duties during the audit process of annuity payments in the Nebraska Public Retirement Information System.

2. ***County Plan Audit Procedures:*** NPERS' internal audit staff did not perform adequate eligibility testing and follow up procedures were not complete for make up contributions. Furthermore, we noted two employees were not properly contributing to the Plan and one member did not meet eligibility requirements.

3. ***Inadequate Resolution of Prior Year Findings:*** NPERS did not appropriately resolve thirteen prior audit findings dating back to 2001.

4. ***Timely Follow-Up of Inactive Accounts:*** NPERS did not have written policies and procedures for the timely follow-up of inactive accounts. Three County Plan members and two State Plan members tested did not have adequate follow up performed by NPERS.

5. ***Alternative Vesting Dates:*** NPERS did not record members' vesting dates in accordance with policy. Furthermore, nine members tested had incorrect vesting dates recorded in the record keeping system.

6. ***Supreme Court Law Clerks:*** Thirteen Supreme Court Law Clerks were not properly contributing to the Plan in accordance with State statute.

7. ***Inconsistent Policies:*** NPERS' materiality policy and make up contribution procedures were not in accordance with State and Federal regulations.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to NPERS to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Benefit Audit Procedures

A good internal control plan requires segregation of duties to ensure the employee assigned to audit an application in the Nebraska Public Retirement Information System (NPRIS) is not capable of making changes during the audit process.

During testing of member benefit payments, we noted when a member retires or terminates and requests payment in the form of an annuity, an NPERS employee calculates the monthly benefit payments to be received by the member. NPRIS requires a secondary review to be performed by an individual separate from the individual who originally processed the member's payment. We noted the individual performing the secondary review was capable of changing the gross benefit amount in NPRIS without an additional review, for the period January through November 2011. During calendar year 2011, there were $9,645,836 and $2,368,053 in annuity payments for the State and County Plans, respectively.

When a reviewer is capable of changing the gross benefit amount without an additional review, there is an increased risk that incorrect or fraudulent adjustments will be made to members' benefit amounts. A similar finding was noted in the previous two audit reports.

> We recommend NPERS implement a segregation of duties to ensure the employee assigned to review a benefit in NPRIS is not capable of making changes during the review process or, if changes are made, those changes be reviewed by another individual.

NPERS' Response: As of July 2012, NPERS changed our procedure to provide for segregation of audit duties and to require a system audit in NPRIS of any overrides to the calculated monthly annuity benefit.

2. County Plan Audit Procedures

Neb. Rev. Stat. § 84-1503(1) (Supp. 2011) states, "It shall be the duty of the Public Employees Retirement Board…[t]o adopt and implement procedures for reporting information by employers, as well as testing and monitoring procedures in order to verify the accuracy of such information. The information necessary to determine membership shall be provided by the employer."

A good internal control plan requires adequate policies and procedures for internal audits performed to ensure individuals are properly contributing or not contributing to the County Plan in accordance with State statute.

During our audit it was noted, NPERS' internal audit staff completed testing procedures on 26 of 109 entities participating in the County Plan during the calendar year. We reviewed the work performed for 5 of the 26 entities and noted the following:

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>County Plan Audit Procedures</u> (Continued)

- NPERS did not perform adequate testing for eligibility of participating members. According to NPERS' testing, they ensured the "member began contributions at the required time or that incorrect contributions were over two years and make ups or refunds will not be done." NPERS merely compared the members' hire date to the date of participation for reasonableness. No further procedures were performed if the dates appeared reasonable. This was not sufficient to determine eligibility as it was unknown if the member was properly contributing in accordance with State statutes. We noted one temporary employee that was improperly contributing who was not identified as ineligible during NPERS' testing.

- During NPERS' testing procedures they noted one employee who should have been contributing to the Plan. The employee then began contributing; however, NPERS did not perform adequate follow up to determine whether make up contributions were required.

Noting issues with the testing procedures performed by NPERS, we tested 22 employees from 21 counties who were contributing to the County Retirement Plan and 18 employees from 4 counties who were not contributing to the Plan and noted the following:

- One employee was hired as a temporary, seasonal worker and therefore did not meet the requirements of membership. The member subsequently terminated employment and requested a distribution of his account in 2011. The member was charged the record keeping distribution fee of $50 and the employer portion of the account was forfeited. As the member was not eligible for participation, the $50 should not have been charged and the forfeited portion of the account should have been returned to the employer.

- Two of eighteen employees were not properly contributing to the Plan. One employee worked for two counties and only contributed from one county. The second employee was rehired with the county within five years and therefore was required to join the Plan upon rehire.

Without adequate procedures to ensure participation is proper and follow up procedures are performed, reliance cannot be placed on testing. Additionally, without adequate procedures to ensure counties are properly adhering to State statutes and NPERS' policies and procedures, there is an increased risk ineligible employees will be allowed to contribute and eligible employees will not begin contributing timely. A similar finding was noted in the previous eleven audit reports.

> We recommend NPERS improve testing procedures and ensure adequate documentation is obtained for conclusions drawn. We also recommend NPERS ensure proper education is given to the counties to ensure employees are properly contributing or not

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>County Plan Audit Procedures</u> (Concluded)

> contributing to the Plan as required. Additionally, NPERS should set up repayment with the county for the employer's contribution and refund the $50 fee to the ineligible member.

NPERS' Response: We continue to enhance the audit program used to test and monitor the county's procedures. We have included procedures to test eligibility in order to verify whether participants meet the requirements of membership in the plan. We have also included a step to make sure if make-up contributions are needed that the individual has started them. NPERS will make certain sufficient documentation is obtained for all conclusions drawn.

3. <u>Inadequate Resolution of Prior Year Findings</u>

A good internal control plan requires timely and thorough resolution of prior audit findings.

During our review of NPERS' procedures to resolve prior audit findings, we noted thirteen findings (seven from the County Plan and six from the State Plan) were not adequately resolved. There were four from the 2010 audit, four from 2009, one from 2008, one from 2006, two from 2005 (one of which was also reported in 2001), and one from 2004.

The issues still existing include:

- Untimely remittance of contributions from one health district;
- One member had ineligible compensation used to calculate contributions and a refund had not been made;
- Seven employees were not properly contributing to the Plans or making up contributions; and
- Inadequate follow up procedures with four counties to ensure enrollment requirements were met.

A similar finding has been reported to NPERS in the previous eleven audit reports.

Without adequate procedures for the timely follow-up of previously identified problems, errors detected in testing remain unresolved. When errors are not properly addressed to ensure the proper resolution, employees continue to miss contributions, contribute improperly, receive incorrect benefit payments, etc.

> We continue to recommend NPERS implement procedures to ensure all audit exceptions are adequately followed up and resolved in a timely manner.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **Inadequate Resolution of Prior Year Findings** (Concluded)

NPERS' Response: Significant progress has been made resolving prior year findings. NPERS resolved 104 (of 108) audit issues for 2010 and 25 (of 34) audit issues that were dated prior to 2010. NPERS will continue to work to ensure all audit exceptions are reviewed and followed up.

4. **Timely Follow-Up of Inactive Accounts**

A good internal control plan requires policies and procedures to ensure members or beneficiaries are notified of account balances timely.

Non-Interest Bearing Account
Cash balance members who have been paid their entire account balance at termination may receive a late contribution or dividend following the payout. In these situations, the funds are transferred in the record keeping system to Fund 51, a non-interest bearing account that accrues monthly fees. Furthermore, according to NPERS' informal policy, balances under $1,000 are to be paid out automatically.

We obtained a report of members whose balance had been transferred to the non-interest bearing account. The listing included 19 State members and 8 County members with balances totaling $16,675 at December 31, 2011. We then performed testing to ensure the account balances were proper and verified NPERS had contacted the member or beneficiary timely regarding the remaining account balance and that balances under $1,000 were paid out automatically. NPERS obtained this report only once during calendar year 2011. During testing we noted the following:

- Two of three County Plan members tested were not contacted by NPERS during the calendar year and one of the members' accounts was under $1,000 but was not paid out automatically. The members' accounts totaled $1,226 and $85 at December 31, 2011.

- One of three County Plan members tested had terminated and was rehired. Upon rehire the member returned to Plan participation; however, the new contributions were improperly recorded to Fund 51. The funds had not been corrected and the member's account balance at December 31, 2011, was $184.

- One State Plan member tested had terminated and was rehired. Upon rehire the member returned to Plan participation; however, the new contributions were improperly recorded to Fund 51. The error was caught by NPERS and the funds were transferred to the interest bearing account. However, NPERS improperly recalculated the interest due to the member and an additional $202 in interest was still owed.

- NPERS was notified about one State Plan member tested that had died in April 2009. However, NPERS continued to send mail to the member and no attempt had been made to locate a beneficiary. The account balance was $14 at December 31, 2011.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Timely Follow-Up of Inactive Accounts (Concluded)

Missing or Unresponsive Participants

NPERS has procedures to obtain a death audit periodically throughout the year. The audit is used to identify deceased members so follow up can be performed and payment made to a beneficiary. NPERS did not have procedures to ensure inactive accounts, not identified as deceased, were monitored and abandoned funds were remitted timely to unclaimed property. Neb. Rev. Stat. § 69-1310 (Reissue 2009) requires abandoned property to be reported to the Nebraska State Treasurer as unclaimed property. Neb. Rev. Stat. § 69-1307.03 (Reissue 2009) addresses when retirement funds are to be presumed abandoned.

NPERS had an independent compliance review performed by Groom Law Group and The Segal Company. The review noted there were no formal, written policies and procedures for administering benefits for missing and unresponsive participants and beneficiaries. The compliance auditors recommended the policies and procedures should address, at a minimum, methods for searching for missing persons, cost of search methods, timing of search methods, uncashed checks, distributing unclaimed benefits, and correction of errors.

Without timely follow up of account balances, there is an increased risk members will not be aware of outstanding balances and funds will be transferred to a non-interest bearing account where fees can consume the balance.

> We recommend NPERS implement procedures to ensure members are notified and paid out remaining balances before fund balances are transferred to the non-interest bearing account. Furthermore, we recommend NPERS establish formal, written policies and procedures for monitoring inactive accounts, remitting abandoned retirement funds to the Nebraska State Treasurer, and for administering benefits for missing and unresponsive participants and beneficiaries.

NPERS' Response: Members in the non-interest bearing fund receive quarterly statements from the record keeper that states that the member's account is in a non-interest bearing account. NPERS will work towards strengthening procedures to ensure members are notified and paid out prior to being transferred to the non-interest bearing fund. NPERS is in the process of adopting a new Rule & Regulation for Missing or Unresponsive Participants and Beneficiaries. NPERS will establish formal, written policies and procedures for monitoring inactive accounts, remitting abandoned retirement funds to the Unclaimed property Department of the Nebraska State Treasurer, and for administering benefits for missing and unresponsive participants.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Alternative Vesting Dates

A good internal control plan requires procedures to ensure vesting dates recorded in the record keeping system are accurate and consistent with policies regarding determination of Alternate Vesting Dates (AVD). NPERS' Policy and Procedure Manual states, "Prior to 1/1/07, the AVD was the first of the month that contributions were remitted. Currently, AVD will be the member's date of hire."

NPERS did not apply vesting dates in accordance with their policy and procedure manual for members of the State and County Plans from January 2007 through January 2012. For new members, the vesting date was automatically recorded as the first of the month in which the members' first contribution posted in the record keeping system. Frequently, the first contribution would post in the month following the month in which the member was hired. There were 1,934 new State Plan members and 1,135 new County Plan members during calendar year 2011. We noted 13 of 22 County Plan members and 17 of 25 State Plan members tested had their vesting dates as the first of the month in which the members' first contribution posted in the system. According to NPERS, as of February 2012, the system defaulted to the hire date as the vesting date; however, NPERS did not intend to correct the previous vesting dates that were not in accordance with their policy effective January 2007.

We also noted members with inaccurate vesting dates in the system:

- One of 22 County Plan members tested had an incorrect vesting date recorded in the system. The issue arose when the health districts and four other entities were given unique plan numbers in the record keeping system. This member had their account transferred to a new plan number and all information in the member's account should have remained the same. However, the member's vesting date changed from December 1, 2010, to January 1, 2011.

  As this appeared to be a system issue, we reviewed an additional six members from entities that were given unique plan numbers during 2011, and noted similar issues with the transfer of information for the six members.

- Two of 25 State Plan members tested had incorrect vesting dates recorded in the system. One member began contributing with the wrong social security number. When the social security number was corrected, the member's vesting date became the date of the change instead of the hire date. The member's vesting date was recorded as April 1, 2011, but should have been November 22, 2010. The second member missed contributions but make up contributions were remitted on the following paycheck. The vesting date should have been adjusted from December 1, 2011, to October 28, 2011, but no changes were made in the system.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Alternative Vesting Dates (Concluded)

Furthermore, NPERS receives a quarterly report from the record keeper called "Participants with No Contributions." The report identifies individuals that are active in the system but stopped contributing. NPERS only reviewed the report once during the calendar year. The report should be reviewed quarterly to identify members with breaks in service that need their vesting date adjusted.

A similar finding was noted in the previous seven audit reports.

Without adequate procedures to ensure vesting dates are accurate and recorded in compliance with NPERS' Policy and Procedure Manual, there is an increased risk members' employer accounts will not be properly paid upon termination.

> We recommend NPERS implement procedures to ensure vesting dates are accurate and in compliance with NPERS' policies and procedures. We also recommend NPERS review the "Participants with No Contributions" report quarterly for timely follow up on member accounts.

NPERS' Response: As of February, 2012, the Alternate Vesting Date (AVD) was programmed to equal the Date of Hire and the Date of Plan Entry Date in OMNI, the operating system of Ameritas. NPERS will update its Policies & Procedures Manual to reflect this change. NPERS will also review its procedures to ensure alternate vesting dates are recorded accurately. NPERS will review the 'Participants with No Contributions' report on a quarterly basis. NPERS will change the responsibility for this report from the Benefit Department to the Accounting Department.

6. Supreme Court Law Clerks

Neb. Rev. Stat. § 84-1307(2) (Supp. 2011) states, in relevant part, "The following employees of the State of Nebraska are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment[.]"

Neb. Rev. Stat. § 84-1307(7) (Supp. 2011) provides, "State agencies shall ensure that employees authorized to participate in the retirement system pursuant to this section shall enroll and make required contributions to the retirement system immediately upon becoming an employee."

During the prior four audits of the State and County Employee Retirement Plans, as well as in the attestation report of the Nebraska Supreme Court (Court) for the fiscal year ended June 30, 2006, it was noted that several employees of the Court had not been enrolled in the retirement system upon hire. The employees were hired as non-career law clerks and, pursuant to the Court's policies, are not given retirement benefits if they have less than five years of employment.

6. Supreme Court Law Clerks (Concluded)

In calendar year 2011, seven new law clerks were identified as working for the Court and not participating in the retirement system. Additionally, in previous audits, six law clerks were identified as not participating in the retirement system (four in the 2009 audit and two in the 2010 audit). All of the law clerks in question were reported in the State accounting system as full-time employees and received life insurance and/or health insurance benefits. Thus, it appears that, pursuant to § 84-1307(7) (Supp. 2011), the Court should have ensured those law clerks were enrolled in, and began making contributions to, the retirement system immediately upon employment.

As of August 2012, the Court has agreed that full-time law clerks shall enroll in and begin making contributions to the retirement system.

> We recommend NPERS work with the Administrative Office of the Courts and Probation to ensure full-time law clerks are enrolled in and begin making contributions to the retirement system. Additionally, we recommend NPERS work with the Court to determine if make up contributions are required.

NPERS' Response: NPERS' will continue to work with the Administrative Office of the Courts and Probation to ensure full-time law clerks are enrolled in and begin making contributions to the State Employees Retirement System. The Agency appreciates the change in policy implemented by the Court this current fiscal year to include all full-time law clerks within the state retirement system.

7. Inconsistent Policies

Materiality Policy

Members who contribute to the Plans in error are not refunded their ineligible contributions in accordance with both State statute and applicable agency rules and regulations. Instead, if the ineligible contributions are older than two years or are less than $50, NPERS forfeits any such amounts to the respective Plan assets.

NPERS created an internal Board Materiality Policy to "establish materiality amounts or tolerance levels for various accounting and processing procedures within the agency." The policy set materiality thresholds for NPERS to use in determining whether errors in member accounts should be adjusted. Regarding ineligible contributions, the policy states:

> *"If the combined total calculation of ineligible contributions for employee and employer are less than $50 for the time period to be refunded (no more than 2 years for employee and 1 year for employer), no refund will be made."*

7. <u>Inconsistent Policies</u> (Continued)

According to Neb. Rev. Stat. § 84-1503(2)(i) (Supp. 2011), the board is required:

> *"To adopt and promulgate rules and regulations for the adjustment of contributions or benefits, which shall include, but not be limited to: (i) The procedures for refunding contributions, adjusting future contributions or benefit payments, and requiring additional contributions or repayment of benefits; (ii) the process for a member, member's beneficiary, employee, or employer to dispute an adjustment to contributions or benefits; and (iii) notice provided to all affected persons. All notices shall be sent prior to an adjustment and shall describe the process for disputing an adjustment to contributions or benefits…"*

2012 Neb. Laws 916, § 43, revised Neb. Rev. Stat. § 84-1503(2)(i), effective April 2012, adding requirements for the adoption of rules and regulations to establish "materiality and de minimus amounts for agency transactions, adjustments, and inactive account closures…" NPERS had not adopted and promulgated the requisite rules and regulations to adjust member accounts or established proposed rules and regulations for the de minimus amounts.

Additionally, NPERS cited Neb. Rev. Stat. § 84-1329 (Reissue 2008) and Neb. Rev. Stat. § 23-2330.01 (Reissue 2007), both of which state that every claim or demand against NPERS "shall be forever barred unless the action is brought within two years of the time at which the claim accrued." According to NPERS, these statutes permit the Board to keep ineligible contributions in the Plan assets instead of refunding them to the members.

Nowhere in State statute or rules and regulations adopted by NPERS, is the Board authorized to retain ineligible member contributions. To the contrary, according to Neb. Rev. Stat. § 84-1305.02 (Reissue 2008) and Neb. Rev. Stat. § 23-2305.01 (Reissue 2007), when dealing with contributions or distributed benefits not in accordance with statutory provisions of the Plan, the Board is expressly restricted to refunding contributions, requiring additional contributions, adjusting benefits, or requiring repayment of benefits paid. Furthermore, Title 303 NAC 18-003.01 states, "If NPERS determines that a retirement system has received an excess employee contribution, then NPERS shall return the excess employee contribution to the employer, and the employer shall return the excess employee contribution to the employee."

Title 303, NAC 18-003.01, was revised effective April 28, 2012, to further state, "…Adjustments due to excess employee contributions shall be made within two contractual or fiscal years of the date the excess contribution was received by NPERS. If more than two contractual or fiscal years have passed since the date the contribution was received, the excess contribution shall not be adjusted."

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Inconsistent Policies</u> (Continued)

Neb. Rev. Stat. § 84-1503(2)(b) (Supp. 2011) requires the Board, "[t]o determine the eligibility of an individual to be a member of the retirement system…" When an employer improperly withholds employee contributions and NPERS accepts those contributions but, after determining years later that they were ineligible, refuses to refund them in full, the member is, in essence, unfairly punished for the errors of both the employer and NPERS.

Without clear statutory approval, much less the applicable rules and regulations required under Neb. Rev. Stat. § 84-1503(2)(i), NPERS lacks the authority either to establish a materiality policy that denies members a full refund of their ineligible contributions or to retain for the Plans those same contributions.

> We recommend NPERS operate in accordance with its legal authority by refunding to both the employer and the member the full amounts of all ineligible contributions. Furthermore, we recommend NPERS develop rules and regulations, as required under Neb. Rev. Stat. § 84-1503(2)(i), for the adjustment of member accounts.

<u>Make Up Contributions</u>
NPERS had an independent compliance review performed by Groom Law Group and The Segal Company. The review noted NPERS' policy permitting employees to elect whether or not to make up contributions when a missed employee contribution is more than two years late, was not in compliance with Federal regulations regarding make up contributions. According to IRS correction procedures under Rev. Proc. 2008-50, correction of missed contributions should be performed for all open years, with interest or earnings, unless to do so "is unreasonable or not feasible."

> The compliance auditors recommended NPERS adopt a policy to require all missed contributions, with earnings, be made up unless it is unreasonable or not feasible to do so, and that make up contributions not be at the election of the member. Alternatively, or in addition, to the extent not paid by the employee, NPERS should consider requiring the employer that failed to collect and remit the missed contributions be made liable to pay such amounts to the Plan, with earnings.

NPERS' Response: It is the agency's legal opinion that the agency has the ability through Nebraska statutory and regulatory law to return ineligible amounts contributed up to a one-year period for employers, and up to a two-year period for employees. The agency also asserts that it has the ability to set de minimus amount levels for transactions through an administrative board policy established by the Public Employees Retirement Board.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Inconsistent Policies (Continued)

NPERS' Response, Concluded:
The agency has the authority to adjust contributions and promulgate rules and regulations establishing procedures for refunding contributions for the state and county retirement plans. See Neb. Rev. Stat. §§ 23-2305.01, 84-1305.02, and 84-1503(2)(i). Based upon rules and regulations adopted by the agency on July 23, 1997, in effect at the time of this audit review period, the following provisions are controlling under the agency's administrative legal authority:

003.02 If NPERS determines that a retirement system has received an excess employer contribution, NPERS shall credit the excess employer contribution against future employer contributions. Adjustments due to excess employer contributions shall be made within one year of the date the excess contribution was received by NPERS. If more than one year has passed since the date the contribution was received, the excess contribution shall not be adjusted.

See Title 303 NAC 18-003.02. This provision controls 18-003.01 by placing a limitation period upon the provisions therein as to when such funds may be returned.

The Public Employees Retirement Board, Policy Number 9 on Materiality, revised February 2011, sets de minimus transaction amounts for the agency, and provides as follows:

5.(f) Ineligible contributions. If the combined total calculation of ineligible contributions for employee and employer are less than $50 for the time period to be refunded (no more than 2 years for employee and 1 year for employer), no refund will be made.

The agency has a fiduciary obligation to the plan members to use the members' limited resources wisely and efficiently. The amount of staff time utilized in ascertaining and returning smaller ineligible amounts may result in greater costs incurred to the plan than is reflected in the amount returned. The need for materiality amounts within the agency has been apparent in the definition of tolerance levels within our NPRIS system for various edits, parameters, etc.

Laws 2012, LB 916, § 43, (effective on April 7, 2012) was passed following the audit review period in this matter. Since the rule and regulation adoption process under the Administrative Procedure Act, Neb. Rev. Stat. §§ 84-901, et seq., reasonably takes a number of months to complete, from initially providing public notice to final approval by the Governor, the agency is in the process of obtaining approval for Title 303 NAC Chapter 3 in order to comply with the provisions of LB 916.

Finally, NPERS is revising its regulations to conform to the recommendations included in the 2012 Legal Compliance Audit conducted by Groom Law Group and the Segal Company. Specifically as it concerns make up contributions, Title 303 NAC Chapter 18 is currently being amended in accordance with the Administrative Procedure Act and the new language proposes to require covered employers who fail to collect and remit missed contributions to be made liable to pay such amounts to the plan unless there is a finding that it is unreasonable or not feasible for them to do so.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Inconsistent Policies (Concluded)

APA Response: NPERS has a fiduciary duty to act solely in the interest of the members. Neb. Rev. Stat. § 84-1503.02(2) requires that any actions undertaken by NPERS to defray expenses must occur within the limitations of existing law. Aside from Neb. Rev. Stat. § 79-977.01, which merely bars any action against NPERS unless brought within two years – no such law or regulation existed during the period tested.

NPERS references Neb. Rev. Stat. §§ 23-2305.01, 84-1305.02, and 84-1503(2)(i) as its authority to adopt rules and regulations establishing procedures for refunding contributions to the State and County retirement plans. Those statutes require NPERS to adopt such rules. Title 303 NAC 18-003, which NPERS points to as having been adopted under those statutes, pertains to the management only of excess employer contributions – not to excess employee contributions, which is the focus of this audit comment.

Instead of properly promulgated rules and regulations – which, in addition to being required under the statutes indicated by NPERS, have the effect of statutory law – NPERS relied upon internal policies for its authority to establish de minimus transaction amounts. Given the expressly mandatory nature of the statutes to which NPERS points, such an internal policy is not adequate.

NPERS states that LB 916 (2012), which became effective on April 7, 2012, was passed to permit the adoption of rules and regulations for establishing de minimus transaction amounts. However, neither the provisions of LB 916 nor any resulting rules and regulations drafted by NPERS can be applied retroactively. Thus, the passage of that bill has no relevance to NPERS' activity during the period tested.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans as of and for the calendar year ended December 31, 2011, which collectively comprise NPERS' basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. 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 (2007 Revision)*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans are intended to present the financial position and changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans. They do not purport to, and do not present fairly the financial position of the State of Nebraska as of December 31, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans, as of December 31, 2011, and the respective changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 31, 2012, on our consideration of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

NPERS has not presented Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress on page 45 and Schedules of Contributions From Employers on page 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 who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements. The accompanying supplementary schedules of Average Administrative Expense Per Member, Calendar Year 2011 Expenses and Fees, Average Administrative Expense Per Member for Calendar Year 2011, and Total Benefits and Refunds Paid are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Signed Original on File

August 31, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2011

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 1,224,945	$ 11,625
Receivables:		
Contributions	1,658,313	893,978
Interest	1,288,037	256,381
Other Receivables (Note 4)	37,736,677	-
Total Receivables	40,683,027	1,150,359
Investments, at fair value (Note 4):		
U.S. Treasury Notes and Bonds	20,582,700	-
Government Agency Securities	1,780,502	-
Corporate Bonds	46,171,222	-
International Bonds	5,965,793	-
Asset Backed Securities	5,316,876	-
Guaranteed Investment Contracts	-	95,764,781
Short Term Investments	18,835,374	11,531,636
Commingled Funds	394,382,024	597,209,920
Mortgages	50,197,911	-
Municipal Bonds	3,878,785	-
Private Equity Funds	25,738,260	-
Equity Securities	128,673,396	-
Options	(33,835)	-
Private Real Estate Funds	1,492,122	-
Total Investments	702,981,130	704,506,337
Invested Securities Lending Collateral (Note 4)	31,682,151	14,275,288
Capital Assets (Note 9):		
Equipment	2,576,507	1,639,851
Less: Accumulated Depreciation	(2,550,319)	(1,609,923)
Total Capital Assets	26,188	29,928
Total Assets	776,597,441	719,973,537
LIABILITIES		
Compensated Absences (Notes 7 and 8)	30,476	15,380
Other Payables (Note 4)	40,814,102	592,748
Benefits Payable	1,575,685	-
Obligations Under Securities Lending (Note 4)	31,682,151	14,275,288
Total Liabilities	74,102,414	14,883,416
Net assets held in trust for pension benefits (A schedule of funding progress for the cash balance benefit plan is presented on page 45.)	$ 702,495,027	$ 705,090,121

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2011

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 29,847	$ 210,930
Receivables:		
Contributions	676,995	247,576
Interest	380,775	57,440
Other Receivables (Note 4)	11,178,490	-
Total Receivables	12,236,260	305,016
Investments, at fair value (Note 4):		
U.S. Treasury Notes and Bonds	6,097,079	-
Government Agency Securities	527,427	-
Corporate Bonds	13,677,001	-
International Bonds	1,767,208	-
Asset Backed Securities	1,574,984	-
Guaranteed Investment Contracts	-	21,355,360
Short Term Investments	6,412,434	3,161,765
Commingled Funds	116,825,221	156,254,643
Mortgages	14,869,801	-
Municipal Bonds	1,148,987	-
Private Equity Funds	7,624,277	-
Equity Securities	38,116,083	-
Options	(10,023)	-
Private Real Estate Funds	442,002	-
Total Investments	209,072,481	180,771,768
Invested Securities Lending Collateral (Note 4)	9,384,998	3,183,503
Capital Assets (Note 9):		
Equipment	1,377,366	772,302
Less: Accumulated Depreciation	(1,362,402)	(757,338)
Total Capital Assets	14,964	14,964
Total Assets	230,738,550	184,486,181
LIABILITIES		
Compensated Absences (Notes 7 and 8)	20,678	9,423
Other Payables (Note 4)	12,090,416	143,177
Benefits Payable	513,288	-
Obligations Under Securities Lending (Note 4)	9,384,998	3,183,503
Total Liabilities	22,009,380	3,336,103
Net assets held in trust for pension benefits (A schedule of funding progress for the cash balance benefit plan is presented on page 45.)	$ 208,729,170	$ 181,150,078

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 19,998,085	$ 11,226,984
Employer (Note 5)	31,187,646	17,497,882
Total Contributions	51,185,731	28,724,866
Investment income:		
Net appreciation (depreciation) in fair value of investments	(6,852,348)	8,996,352
Interest & Dividends	11,184,991	3,740,983
Securities Lending Income	218,988	51,746
Total Investment Income	4,551,631	12,789,081
Investment Expenses:		
Investment Expenses	(1,825,775)	(396,183)
Securities lending expense	(51,571)	(16,226)
Net investment income	2,674,285	12,376,672
Other Additions	6,810	3,660
Total Additions	53,866,826	41,105,198
DEDUCTIONS:		
Benefits and Refunds	46,220,387	35,116,958
Administrative expenses	899,626	535,933
Other Deductions	94,905	142,245
Total Deductions	47,214,918	35,795,136
TRANSFERS (Note 10)	6,680,637	(6,680,637)
Change in Net Assets	13,332,545	(1,370,575)
Net assets held in trust for pension benefits:		
Beginning of year	689,162,482	706,460,696
End of year	$ 702,495,027	$ 705,090,121

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 8,045,882	$ 3,453,067
Employer (Note 5)	11,908,346	5,099,236
Total Contributions	19,954,228	8,552,303
Investment income:		
Net appreciation (depreciation) in fair value of investments	(2,204,575)	2,770,786
Interest & Dividends	3,254,531	846,914
Securities Lending Income	64,870	11,540
Total Investment Income	1,114,826	3,629,240
Investment Expenses:		
Investment Expenses	(572,554)	(97,424)
Securities lending expense	(15,277)	(3,619)
Net investment income	526,995	3,528,197
Other Additions	1,970	1,160
Total Additions	20,483,193	12,081,660
DEDUCTIONS:		
Benefits and Refunds	13,057,381	8,241,325
Administrative expenses	526,770	273,040
Total Deductions	13,584,151	8,514,365
TRANSFERS (Note 10)	1,787,246	(1,787,246)
Change in Net Assets	8,686,288	1,780,049
Net assets held in trust for pension benefits:		
Beginning of year	200,042,882	179,370,029
End of year	$ 208,729,170	$ 181,150,078

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

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

Separate reports have been issued for the School Employees, Judges, and State Patrol Retirement Plans for the fiscal year ended June 30, 2011, and the Deferred Compensation Plan for the year ended December 31, 2009.

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

C. Measurement Focus, Basis of Accounting

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

1. <u>Summary of Significant Accounting Policies</u> (Continued)

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

D. Cash in State Treasury

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

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

E. Investments

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

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

F. Capital Assets

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

1. <u>Summary of Significant Accounting Policies</u> (Concluded)

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Purchased software that is financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put the software into place. The useful life is determined based on the system and will be depreciated over seven years, the same period as the lease financing arrangement used to purchase the software. Equipment is depreciated over three to ten 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 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or of a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee’s accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 50 or 60 days.

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

H. Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions

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

A. Nebraska State Employees Retirement Plan

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

All permanent full-time employees are required to begin participation in the retirement system upon employment. Prior to April 2011, all permanent part-time employees who had attained the age of 20 could exercise the option to begin participation in the retirement system. Effective April 2011, the age requirement decreased to18.

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

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

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

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

2. Plan Descriptions (Continued)

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

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

State Plan membership consisted of the following at December 31, 2011:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	737
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,629	3,249
Active Plan Members	4,841	11,278
Total	6,470	15,264

The 737 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

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

Calendar Year	Employee Contributions	Employer Contributions
2011	$ 90,928	$ 141,847
2010	90,336	140,924
2009	90,222	140,746

2. Plan Descriptions (Continued)

B. Nebraska County Employees Retirement Plan

In 1973, the State Legislature brought the County Employees Retirement Plan under the administration of the Board. This multiple-employer plan covers employees of 91 of the State's 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees, as allowed by Neb. Rev. Stat. § 23-1118 (Supp. 2011).

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

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

Contributions. Per statutes, county employees and elected officials contribute 4½ percent of their total compensation and the county matches 150 percent. Present and future commissioned law enforcement personnel employed by such counties shall contribute additional contributions to a supplemental retirement plan. Commissioned law enforcement personnel in participating counties with less than eighty-five thousand inhabitants shall contribute an extra 1 percent, or a total of 5½ percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of eighty-five thousand inhabitants shall contribute an extra 2 percent, or a total of 6½ percent of their total compensation; the county matches 150 percent for the first 4½ percent and 100 percent for the extra 1 and 2 percent. The employee's and employer's contributions are kept in separate accounts.

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

2. Plan Descriptions (Concluded)

When employees terminate and are not fully vested, the amount contributed by the county is forfeited and used to reduce NPERS expenses. Since forfeitures are not sufficient to pay administrative expenses, NPERS has implemented an asset charge on the defined contribution option assets. This asset charge was discontinued in April 2011. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

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

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

County Plan membership consisted of the following at December 31, 2011:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	315
Terminated Plan Members Entitled to but not yet Receiving Benefits	745	1,354
Active Plan Members	1,841	5,811
Total	2,586	7,480

The 315 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress

The funded status of each cash balance benefit as of December 31, 2011, the most recent actuarial valuation date, is as follows:

	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) - Entry Age	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
State	$ 743,970,954	$ 813,285,510	$ 69,314,556	91.5%	$ 458,826,702	15.1%
County	220,662,783	240,195,114	19,532,331	91.9%	193,269,158	10.1%

The schedules of funding progress, presented as required supplementary information immediately following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

	State	County
Valuation date	December 31, 2011	December 31, 2011
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	23 Years	24 Years
Asset valuation method	5 Year Smoothing	5 Year Smoothing
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.5% to 5.9%	5.5% to 15.0%
Cost-Of-Living Adjustments (COLA)	None	None

* Includes assumed inflation of 3.5% per year.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Plan Net Assets. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Reissue 2009) authorizes the appointed members of the Nebraska Investment Council to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems.

NPERS' investments for the State and County Employees Retirement Plans at December 31, 2011, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

(Continued on Next Page)

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

State and County Employees Retirement Plans Investments at December 31, 2011

	State and County Cash Balance Benefit		State and County Defined Contribution	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Debt Securities				
U.S. Treasury Notes and Bonds	$ 26,679,779	7.69	$ -	-
Government Agency Securities	2,307,929	4.76	-	-
Corporate Bonds	59,848,223	4.79	-	-
International Bonds	7,733,001	5.34	-	-
Asset Backed Securities	6,891,860	4.04	-	-
Guaranteed Investment Contracts	-	-	117,120,141	2.79
Short Term Investments	25,247,808	0.47	14,693,401	0.00
Commingled Funds	71,158,158	4.35	263,873,509	4.36
Mortgages	65,067,712	4.48	-	-
Municipal Bonds	5,027,772	11.32	-	-
	269,962,242		395,687,051	
Other Investments				
Private Equity Funds	33,362,537		-	
Equity Securities	166,789,479		-	
Commingled Funds	440,049,087		489,591,054	
Options	(43,858)		-	
Private Real Estate Funds Trust	1,934,124		-	
Total Investments	912,053,611		885,278,105	
Invested Securities Lending Collateral	41,067,149		17,458,791	
Total	$ 953,120,760		$ 902,736,896	
As reported on the financial statements:				
Investments				
State	$ 702,981,130		$ 704,506,337	
County	209,072,481		180,771,768	
Total Investments	912,053,611		885,278,106	
Securities Lending Collateral				
State	31,682,151		14,275,288	
County	9,384,998		3,183,503	
Total Securities Lending Collateral	41,067,149		17,458,791	
Total reported on financial statements	$ 953,120,760		$ 902,736,896	

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. High yield corporate fixed income securities with a minimum rating of BBB- and below are permitted to be held as long as the average credit quality of the account is maintained as investment grade. NPERS' rated debt investments as of December 31, 2011, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Cash Balance Benefit/Defined Contribution Investments at December 31, 2011
Quality Ratings

	Cash Balance Benefit								Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**	**Fair Value**	**Unrated**
Asset Backed Securities	$ 6,891,860	$ 2,316,434	$ 2,546,854	$ 733,535	$ 469,180	$ 32,029	$ 241,558	$ 552,270	$ -	$ -
Mortgages	65,067,712	6,995,340	50,090,557	1,751,672	906,064	256,523	461,248	4,606,308	-	-
International Bonds	7,733,001	3,133,855	463,973	918,820	2,478,871	518,046	91,191	128,245	-	-
Corporate Bonds	59,848,223	3,501,498	3,835,037	16,142,865	17,645,018	9,238,580	7,322,535	2,162,690	-	-
Government Agency Securities	2,307,929	36,363	1,710,896	418,549	54,381	-	51,946	35,794	-	-
Municipal Bonds	5,027,772	1,189,192	1,481,980	2,184,043	172,557	-	-	-	-	-
Short Term Investments	25,247,808	-	-	733,980	-	-	-	24,513,828	14,693,401	14,693,401
Commingled Funds	71,158,158	-	-	-	-	-	-	71,158,158	263,873,509	263,873,509

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

At December 31, 2011, the State and County Defined Contribution and Cash Balance Benefit Plans had no debt security investments with more than five percent of total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. At December 31, 2011, the State and County Defined Contribution Plans did not have exposure to foreign currency risk. The State and County Cash Balance Benefit Plans exposure to foreign currency risk is presented on the following table.

(Continued on Next Page)

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Cash Balance Benefit Foreign Currency at December 31, 2011

	Asset Backed Securities	Corporate Bonds	International Bonds	Government Agency	Mortgages	Short Term Investments	Equity Securities
Australian Dollar	$ -	$ 148,681	$ 33,296	$ -	$ -	$ 63,730	$ 2,729,050
Brazilian Real	-	223,723	54,184	-	-	138,692	314,536
Canadian Dollar	-	154,041	3,100,559	36,363	-	53,462	1,532,340
Chilean Peso	-	52,586	-	-	-	-	-
Colombian Peso	-	64,578	-	-	-	-	-
Czech Koruna	-	-	-	-	-	-	123,867
Danish Krone	-	-	-	-	-	3,429	162,895
Euro Currency	71,451	736,514	1,017,478	-	425,120	94,897	23,833,520
Hong Kong Dollar	-	-	-	-	-	66,218	2,606,617
Indian Rupee	-	79,489	43,703	-	-	-	-
Indonesian Rupiah	-	122,347	-	-	-	-	283,790
Japanese Yen	-	-	-	-	-	82,262	12,114,065
Mexican Peso	-	36,775	249,601	-	-	74,359	270,139
New Zealand Dollar	-	-	127,332	-	-	3	-
Norwegian Krone	-	-	-	-	-	11	543,061
Philippine Peso	-	-	126,792	-	-	3,816	37,782
Polish Zloty	-	-	-	-	-	10	334,419
Pound Sterling	-	155,895	-	-	43,169	163,309	11,752,116
Singapore Dollar	-	258,470	-	-	-	11	1,089,244
South African Rand	-	-	-	-	-	12,234	586,675
South Korean Won	-	222,143	-	-	-	402	2,687,683
Swedish Krona	-	-	-	-	-	14	1,456,591
Swiss Franc	-	-	-	-	-	104	5,841,888
Thailand Baht	-	-	-	-	-	584	1,289,712
Total	$ 71,451	$ 2,255,242	$ 4,752,945	$ 36,363	$ 468,289	$ 757,547	$69,589,990

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 31 to 36 days as of June 30, 2011. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates or financial indices. These instruments are used primarily to enhance performance and/or reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations and based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. At December 31, 2011, the State and County Defined Contribution Plans did not invest in derivative financial instruments. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at December 31, 2011, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments for the year then ended for the State and County Cash Balance Benefit Plans are as follows:

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT DECEMBER 31, 2011

Derivative	Change in Fair Value	Fair Value	Notional
Credit Defaults Swaps	$ 6,465	$ 96,367	$ 5,377,046
Fixed Income Futures	903,174	-	104,310,880
Fixed Income Options	336,796	(15,150)	(25,783,828)
Futures Options	(12,106)	(28,708)	(125,388)
FX Forwards	311,710	232,238	19,870,168
Interest Rate Swaps	(1,284,206)	272,100	8,910,516
Rights	2,964	-	-
Warrants	61	61	614

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at December 31, 2011, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the notional amount for Futures and Options was calculated as contract size times the number of contracts.

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

The aggregate fair value of derivative instruments in asset positions at December 31, 2011, was $684,837. 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 $684,837.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, there is approximately 74 percent of the net exposure to credit risk, held with five counterparties. The counterparties are rated A or AA.

4. Investments (Continued)

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

Foreign currency risk for derivative instruments at December 31, 2011, was as follows:

DERIVATIVES FOREIGN CURRENCY AT
DECEMBER 31, 2011

Currency	Swaps	Forward Contracts
Australian Dollar	$ -	$ 14,430
Brazilian Real	138,692	(2,601)
Canadian Dollar	-	(1,133)
Euro Currency	34,040	175,247
Mexican Peso	29,630	(16,948)
Norwegian Krone	-	(17,216)
Pound Sterling	118,331	3,283
Swiss Franc	-	17,156
Yuan Renminbi	-	60,020
Total	$ 320,693	$ 232,238

Synthetic Guaranteed Investment Contracts (SGICs). In the State and County Defined Contribution Plans, employees are eligible to participate in SGICs. The contracts provided an average crediting rate of 3.71 percent during calendar year 2011. The fair value of these contracts is $100,444,351, and the contract value is $95,921,143.

SGIC Components	Fair Value
Underlying Investments	$ 100,444,351
Wrap Contract	-
Total	$ 100,444,351

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

	Effective Duration	Fair Value	Investments Underlying SGICs Quality Ratings at December 31, 2011				
			AAA	AA	A	BBB	Unrated
Asset Backed Securities	1.87	$ 9,656,589	$ 9,387,132	$ 4,173	$ 95,983	$ 4,216	$ 165,085
Corporate Bonds	2.85	41,221,039	2,297,798	7,768,429	20,037,349	11,026,017	91,446
Government Agency Securities	4.36	5,402,581	-	5,402,581	-	-	-
International Bonds	2.56	1,818,332	524,139	340,579	953,614	-	-
Mortgages	1.59	25,643,227	3,233,638	21,551,628	626,941	-	231,020
Short Term Investments	0.00	2,148,435	-	-	-	-	2,148,435
US Treasury Notes	5.27	14,554,148	-	-	-	-	14,554,148
		$ 100,444,351					

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

4. Investments (Concluded)

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset has been recorded as of December 31, 2011, but the security had not settled.

5. Employer Contributions

Historically, employer contributions have been reported net of forfeitures. Forfeitures result when a member terminates prior to vesting in the employer contribution portion of his or her account. In accordance with Neb. Rev. Stat. § 23-2319.01(1) (Supp. 2011) and Neb. Rev. Stat. § 84-1321.01(1) (Supp. 2011), forfeitures are used to pay administrative expenses of the Board. The balance of the Defined Contribution forfeiture accounts at December 31, 2011, was $18,108 for the State Plan and $45,398 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $5,074,070 for the State Plan and $1,057,893 for the County Plan.

6. Contingencies and Capital Lease Commitments

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

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

B. Life insurance for eligible employees.

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

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

D. Real and personal property on a blanket basis for losses up to $250 million, with a self-insured retention of $200,000 per loss occurrence.

Details of the various coverages are available from Risk Management, a division of DAS.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments, as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Public Employees Retirement Systems' financial statements.

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

7. **Compensated Absences**

The liability for the vested portion of compensated absences for each plan at December 31, 2011, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 16,791	$ 8,474	$ 11,393	$ 5,192
Sick Leave	13,685	6,906	9,285	4,231
	$ 30,476	$ 15,380	$ 20,678	$ 9,423

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2011, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Defined Contribution					
Compensated Absences	$ 18,972	$ -	$ 3,592	$ 15,380	$ 1,077
Capital Lease Obligations	17,551	-	17,551	-	-
Totals	$ 36,523	$ -	$ 21,143	$ 15,380	$ 1,077
State Cash Balance Benefit					
Compensated Absences	$ 28,244	$ 2,232	$ -	$ 30,476	$ 2,133
Capital Lease Obligations	38,267	-	38,267	-	-
Totals	$ 66,511	$ 2,232	$ 38,267	$ 30,476	$ 2,133
County Defined Contribution					
Compensated Absences	$ 9,809	$ -	$ 386	$ 9,423	$ 660
Capital Lease Obligations	7,193	-	7,193	-	-
Totals	$ 17,002	$ -	$ 7,579	$ 9,423	$ 660
County Cash Balance Benefit					
Compensated Absences	$ 15,318	$ 5,360	$ -	$ 20,678	$ 1,447
Capital Lease Obligations	20,141	-	20,141	-	-
Totals	$ 35,459	$ 5,360	$ 20,141	$ 20,678	$ 1,447

(Continued on Next Page)

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contribution				
Equipment	$ 1,639,851	$ -	$ -	$ 1,639,851
Less: Accumulated Depreciation	1,419,450	190,473	-	1,609,923
Capital Assets, Net	$ 220,401	$ (190,473)	$ -	$ 29,928
State Cash Balance Benefit				
Equipment	$ 2,576,507	$ -	$ -	$ 2,576,507
Less: Accumulated Depreciation	2,362,409	187,910	-	2,550,319
Capital Assets, Net	$ 214,098	$ (187,910)	$ -	$ 26,188
County Defined Contribution				
Equipment	$ 772,302	$ -	$ -	$ 772,302
Less: Accumulated Depreciation	663,569	93,769	-	757,338
Capital Assets, Net	$ 108,733	$ (93,769)	$ -	$ 14,964
County Cash Balance Benefit				
Equipment	$ 1,377,366	$ -	$ -	$ 1,377,366
Less: Accumulated Depreciation	1,256,626	105,776	-	1,362,402
Capital Assets, Net	$ 120,740	$ (105,776)	$ -	$ 14,964

10. Transfers

Transfer activity for the year ended December 31, 2011, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 6,009,531	$ (6,009,531)
Miscellaneous Transfers	671,106	(671,106)
Total Transfers	$ 6,680,637	$ (6,680,637)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 1,600,658	$ (1,600,658)
Miscellaneous Transfers	186,588	(186,588)
Total Transfers	$ 1,787,246	$ (1,787,246)

10. Transfers (Concluded)

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

11. Equal Retirement Benefit Fund

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

Upon retirement, any member with an accumulated account balance based on contributions made prior to January 1, 1984, has the option to convert to an annuity, at which time they are eligible to receive a benefit from the fund. The ERBF benefit is included in the member's regular retirement annuity and is included in the benefit payments reported in the financial statements. The balances of the funds are not included in the financial statements. As of December 31, 2011, there was a balance of $483,304 in the State ERBF and a balance of $287,605 in the County ERBF.

12. Subsequent Event

Defined Contribution Member Option to Transfer to Cash Balance Plan.
Pursuant to (2012) Neb. Laws LB 916, State and County employees participating in the Defined Contribution Plan will be allowed to elect to participate in the Cash Balance Benefit Plan effective January 2, 2013. This one-time election is to be made between September 1, 2012 and October 31, 2012.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
CASH BALANCE BENEFIT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
STATE EMPLOYEES						
12/31/2011	$ 743,970,954	$ 813,285,510	$ 69,314,556	91.5%	$ 458,826,702	15.1%
12/31/2010	$ 714,131,805	$ 762,680,399	$ 48,548,594	93.6%	$ 449,206,006	10.8%
12/31/2009	$ 670,591,669	$ 714,408,952	$ 43,817,283	93.9%	$ 454,776,381	9.6%
12/31/2008	$ 637,539,094	$ 658,249,398	$ 20,710,304	96.9%	$ 433,397,447	4.8%
12/31/2007	$ 606,552,428	$ 586,829,526	$ (19,722,902)	103.4%	$ 384,708,712	(5.1%)
12/31/2006	$ 392,442,206	$ 379,734,639	$ (12,707,567)	103.3%	$ 323,982,997	(3.9%)
COUNTY EMPLOYEES						
12/31/2011	$ 220,662,783	$ 240,195,114	$ 19,532,331	91.9%	$ 193,269,158	10.1%
12/31/2010	$ 206,036,302	$ 221,080,026	$ 15,043,724	93.2%	$ 183,967,790	8.2%
12/31/2009	$ 187,109,554	$ 196,773,040	$ 9,663,486	95.1%	$ 177,732,220	5.4%
12/31/2008	$ 175,765,930	$ 175,293,953	$ (471,977)	100.3%	$ 165,275,589	(0.3%)
12/31/2007	$ 163,782,748	$ 151,557,186	$ (12,225,562)	108.1%	$ 141,110,390	(8.7%)
12/31/2006	$ 116,379,465	$ 110,630,278	$ (5,749,187)	105.2%	$ 113,468,303	(5.1%)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
CASH BALANCE BENEFIT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011

STATE EMPLOYEES			
Year Ended December 31	Annual Required Contribution State		Percentage Contributed
2011	$	31,187,646	100%
2010	$	30,836,977	100%
2009	$	30,326,809	100%
2008	$	29,204,456	100%
2007	$	22,920,710	100%
2006	$	16,672,478	100%

COUNTY EMPLOYEES			
Year Ended December 31	Annual Required Contribution Counties		Percentage Contributed
2011	$	11,908,346	100%
2010	$	11,379,396	100%
2009	$	10,558,967	100%
2008	$	9,840,004	100%
2007	$	8,194,608	100%
2006	$	6,245,470	100%

The actuarial determination of the Annual Required Contribution was based on actual covered payroll for the period.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
AVERAGE ADMINISTRATIVE EXPENSE PER MEMBER

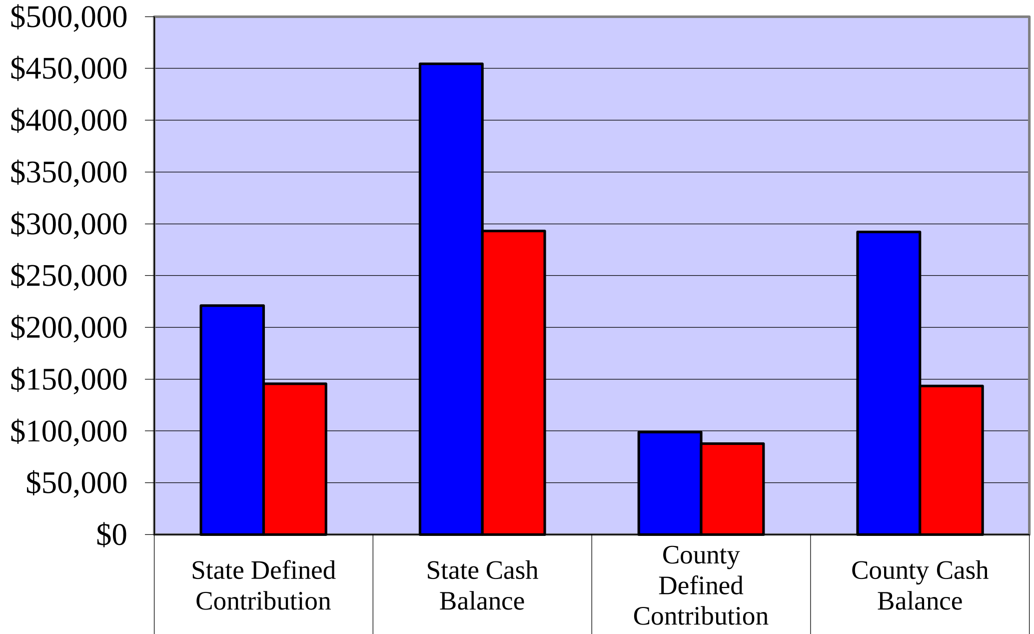
STATE DEFINED CONTRIBUTION	2007	2008	2009	2010	2011
Members:					
Active	7,276	5,810	5,588	5,224	4,841
Inactive	1,844	1,682	1,573	1,606	1,629
Total Members	9,120	7,492	7,161	6,830	6,470
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 679,463	$ 829,346	$ 742,674	$ 413,902	$ 220,988
Record-keeper fees (3)	243,378	167,841	133,896	109,886	145,636
Total Cash Basis Fees and Expenses	$ 922,841	$ 997,187	$ 876,570	$ 523,788	$ 366,624
Administrative Expenses per GAAP financial statements	$ 754,980	$ 1,016,824	$ 646,490	$ 630,739	$ 535,933
Average Administrative Expense per member (1)	$ 83	$ 136	$ 90	$ 92	$ 83
STATE CASH BALANCE					
Members:					
Active	9,798	11,390	11,749	11,238	11,278
Inactive	1,429	2,440	2,151	2,707	3,249
Total Members	11,227	13,830	13,900	13,945	14,527
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 711,220	$ 801,318	$ 799,750	$ 682,945	$ 454,507
Record-keeper fees (3)	263,314	260,108	241,554	204,892	293,183
Total Cash Basis Fees and Expenses	$ 974,534	$ 1,061,426	$ 1,041,304	$ 887,837	$ 747,690
Administrative Expenses per GAAP financial statements	$ 1,215,889	$ 989,480	$ 692,870	$ 984,012	$ 899,626
Average Administrative Expense per member (1)	$ 108	$ 72	$ 50	$ 71	$ 62
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	2,725	2,243	2,144	1,982	1,841
Inactive	940	813	743	756	745
Total Members	3,665	3,056	2,887	2,738	2,586
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 290,410	$ 362,215	$ 363,444	$ 212,671	$ 98,925
Record-keeper fees (3)	100,867	68,720	55,240	44,955	87,923
Total Cash Basis Fees and Expenses	$ 391,277	$ 430,935	$ 418,684	$ 257,626	$ 186,848
Administrative Expenses per GAAP financial statements	$ 239,576	$ 445,787	$ 258,522	$ 313,142	$ 273,040
Average Administrative Expense per member (1)	$ 65	$ 146	$ 90	$ 114	$ 106
COUNTY CASH BALANCE					
Members:					
Active	4,785	5,468	5,633	5,637	5,811
Inactive	608	890	800	1,076	1,354
Total Members	5,393	6,358	6,433	6,713	7,165
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 371,890	$ 433,074	$ 438,558	$ 359,602	$ 292,172
Record-keeper fees (3)	122,807	118,125	109,915	92,721	143,457
Total Cash Basis Fees and Expenses	$ 494,697	$ 551,199	$ 548,473	$ 452,323	$ 435,629
Administrative Expenses per GAAP financial statements	$ 654,078	$ 491,687	$ 341,948	$ 508,714	$ 526,770
Average Administrative Expense per member (1)	$ 121	$ 77	$ 53	$ 76	$ 74

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

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

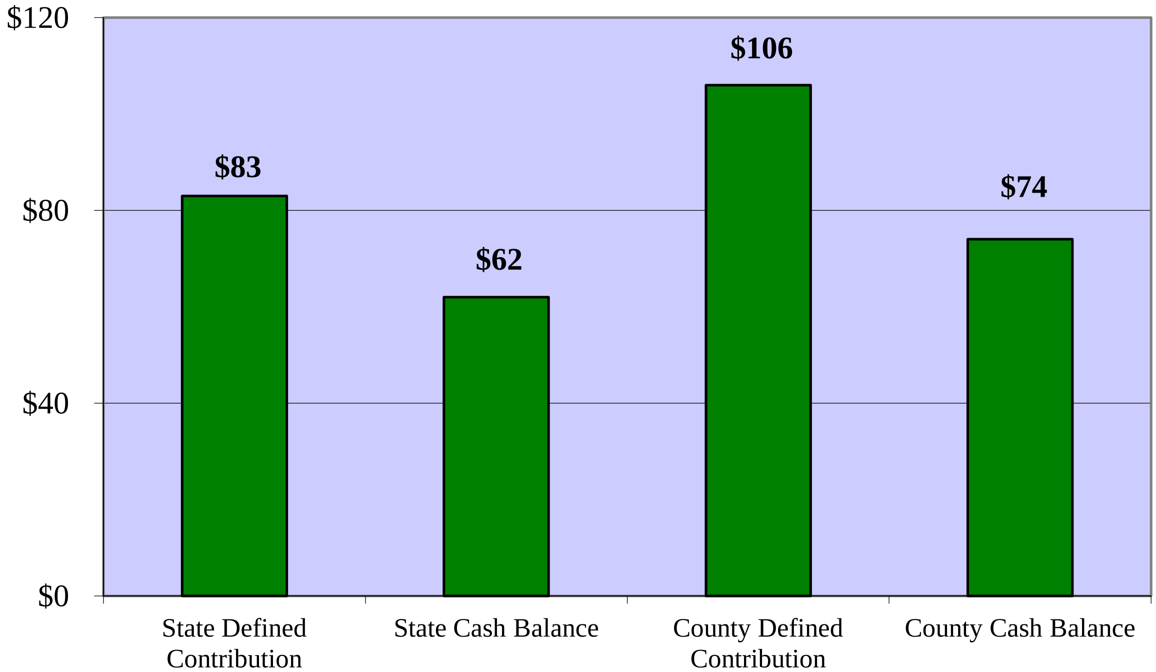
(3) Record-keeper fees are amounts charged by the record-keeper to members for record-keeping services. This is the amount members see as fees on their quarterly statements.

CALENDAR YEAR 2011 EXPENSES AND FEES



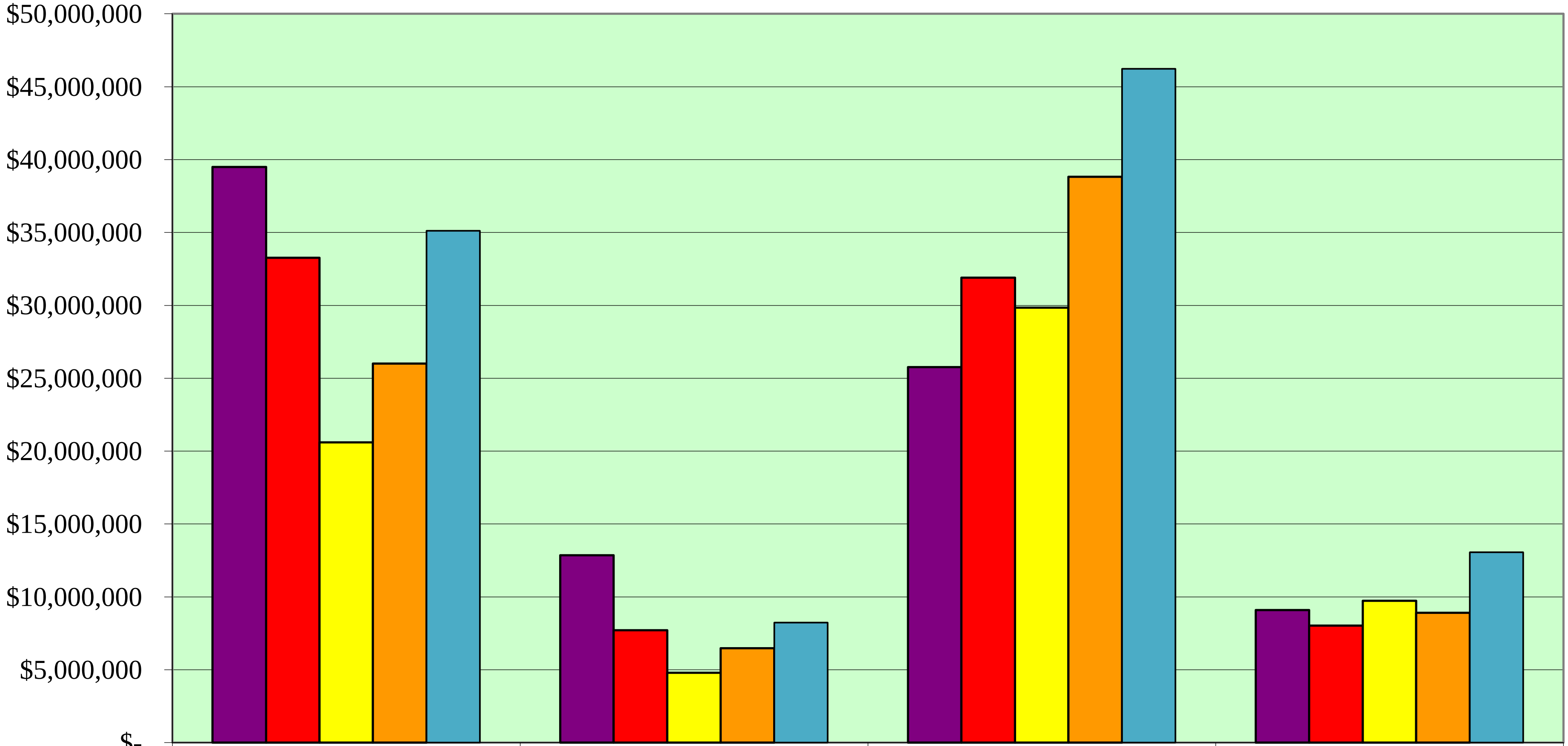
	State Defined Contribution	State Cash Balance	County Defined Contribution	County Cash Balance
NPERS expenses	$220,988	$454,507	$98,925	$292,172
Record-Keeper Fees	$145,636	$293,183	$87,923	$143,457

AVERAGE ADMINISTRATIVE EXPENSE PER MEMBER FOR CALENDAR YEAR 2011



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TOTAL BENEFITS AND REFUNDS PAID



	State Defined Contribution	County Defined Contribution	State Cash Balance	County Cash Balance
2007	$39,498,621	$12,851,408	$25,763,588	$9,094,828
2008	$33,264,603	$7,712,560	$31,892,723	$8,020,611
2009	$20,597,815	$4,785,257	$29,840,355	$9,729,643
2010	$26,012,528	$6,483,848	$38,826,644	$8,914,802
2011	$35,116,958	$8,241,325	$46,220,387	$13,057,381

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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

Nebraska Public Employees Retirement Systems
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans as of and for the year ended December 31, 2011, and have issued our report thereon dated August 31, 2012. The report was modified to disclose that the Management Discussion and Analysis was not presented and to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans. 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.

Internal Control Over Financial Reporting

Management of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems – State and County Retirement Plans' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – State and County Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – State and County Retirement Plans' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting that are described in the Comments Section of the report: Comment Number 1 (Benefit Audit Procedures), Comment Number 2 (County Plan Audit Procedures), and Comment Number 3 (Inadequate Resolution of Prior Year Findings). 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.

<u>Compliance and Other Matters</u>

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

We noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems – State and County Retirement Plans in the Comments Section of this report as Comment Number 4 (Timely Follow-Up of Inactive Accounts), Comment Number 5 (Alternate Vesting Dates), Comment Number 6 (Supreme Court Law Clerks), and Comment Number 7 (Inconsistent Policies).

The Nebraska Public Employees Retirement Systems – State and County Retirement Plans' written responses to the findings identified in our audit are described in the Comments Section of the report. We did not audit the Nebraska Public Employees Retirement Systems – State and County Retirement Plans' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board, others within NPERS, and the appropriate Federal and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Signed Original on File

August 31, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor