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, 2012 THROUGH DECEMBER 31, 2012

Issued on September 5, 2013

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TABLE OF CONTENTS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

BACKGROUND

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

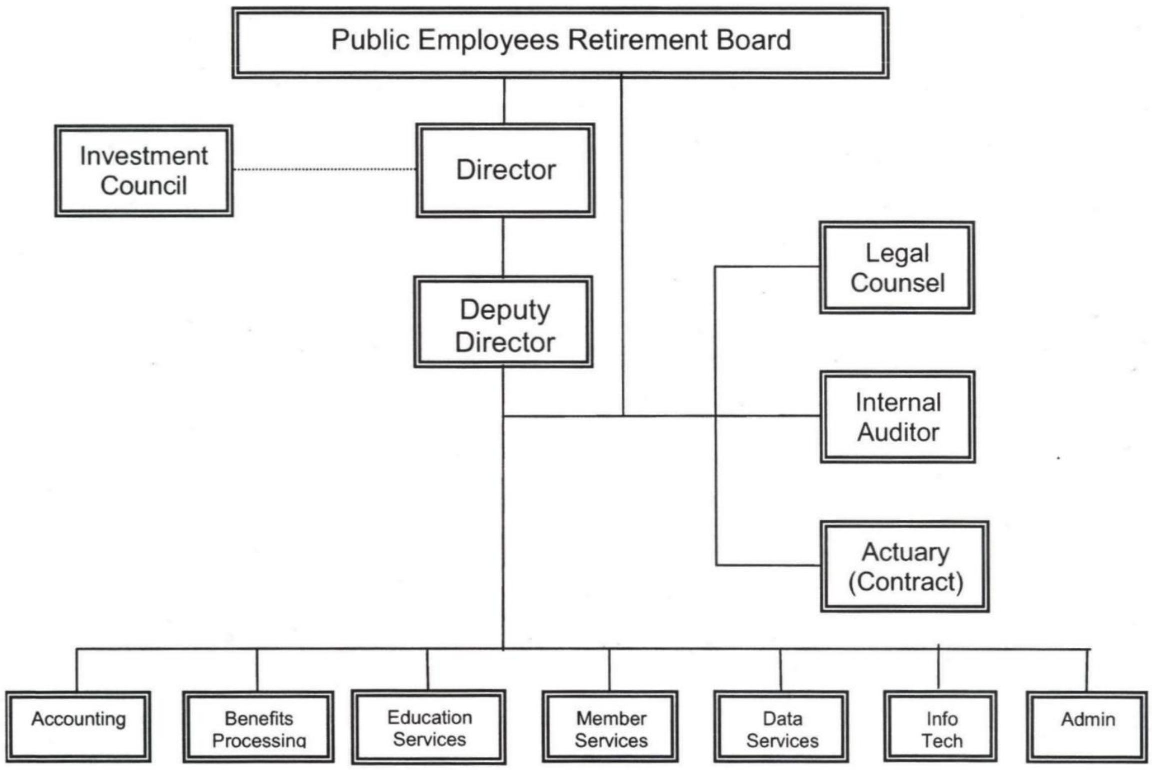
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

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, 2013, 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
Ron Ecklund	Board Member
Randy Gerke	Deputy Director
Teresa Zulauf	Internal Auditor
Melissa Mendoza	Retirement Specialist II
Miden Ebert	Supervisor
Dennis Rohren	Accountant III

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. ***Non-Contributing Members:*** Four county employees tested were not contributing to the retirement plan as required by State statute. We also noted NPERS did not have adequate procedures in their county audit testing for determining eligibility.

2. ***Inadequate Resolution of Prior Year Findings:*** NPERS did not adequately resolve four prior year findings dating back to 2004.

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

Draft copies of this report were furnished to NPERS to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this 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. Non-Contributing Members

Neb. Rev. Stat. § 23-2306 (Reissue 2012) states, in part:

> *(2) The following employees of member counties are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment and full-time elected officials shall begin participation in the retirement system upon taking office, (b) all permanent part-time employees who have attained the age of eighteen years may exercise the option to begin participation in the retirement system.*
>
> *(8) Counties 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.*

Neb. Rev. Stat § 23-2301 (Reissue 2012) provides the following definitions:

> *Full-time employee means an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period" and "Part-time employee means an employee who is employed to work less than one-half of the regularly scheduled hours during each pay period.*

NPERS Rules and Regulations Title 303 NAC 18-004.01(a) (effective December 8, 2012) states, in relevant part, "[I]f NPERS determines that a retirement system has received insufficient contributions from an employer of an active member, NPERS shall require the employer remit the additional required employee and employer contributions, and this amount may include interest."

NPERS Manual for County Clerks (revised December 2011) states, in part:

> *Participation becomes mandatory when an employee works one-half or more of the regularly scheduled hours in a pay period for at least 6 bi-weekly pay periods…in a calendar year. The pay periods may or may not be consecutive. The 'mandatory effective date of participation' in the plan will be the next pay period following the 6 bi-weekly…pay periods that the employee worked one-half or more of the regularly scheduled hours. If the employee does not begin participation on the 'mandatory effective participation date', make-up contributions would be required going back to the 'mandatory effective participation date' or two years, whichever is less.*
>
> *For any employee who is employed by more than one county at the same time, if the employee meets membership requirements at any county and is contributing to the County Plan, the employee should be contributing at all counties in which he/she is employed, even if the employment at any individual county is considered less than half time or is temporary.*

A good internal control plan requires procedures to ensure employees are properly contributing.

We tested sixteen non-contributing employees from four counties and noted one county had three non-contributing employees who exceeded half the regularly scheduled hours for at least six bi-weekly pay periods during calendar year 2012 and thus were required to participate. These three employees worked six, seven, and eight bi-weekly pay periods; respectively, during the calendar year. They should have started contributing in September, December, and one should have begun in January 2013.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Non-Contributing Members (Concluded)

In addition, during a separate test of 25 county members we identified a member who, while already a full-time county employee, was hired as a temporary employee at a different county and then eventually was hired on as full-time. Per the Manual for County Clerks, since the employee was a member in the plan through their initial employer, the employee should have also contributed while working as a temporary employee of another county. This employee began temporary employment in calendar year 2011. We also noted the member's vesting date for the second county should have been adjusted to agree to the vesting date of the initial county employer.

Finally, we noted NPERS did not have adequate procedures to determine eligibility in its County Audit testing. NPERS procedures included reviewing demographic information (e.g., address, date of hire, date of birth, date of participation) but NPERS did not review contributing members to determine whether they were eligible for the plan.

When counties do not properly enroll employees, they are not in compliance with State statute, NPERS Rules and Regulations, and the Manual for County Clerks. NPERS audit procedures do not appear adequate to ensure only eligible members are participating in the plan.

> We recommend NPERS work with the counties to ensure employees are properly contributing to the County Plan. Additionally, we recommend NPERS require the employees and counties remit makeup contributions as required by regulations. We also recommend NPERS add audit procedures to ensure only eligible members are contributing to the plan.

NPERS' Response: NPERS has added audit procedures to ensure only eligible members are contributing to the county plan. NPERS will continue to enhance the audit program used to test and monitor the county's procedures. NPERS has contacted the appropriate counties and is in the process of collecting make-up contributions.

2. Inadequate Resolution of Prior Year Findings

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

During our review of NPERS' follow-up on prior audit findings; we noted four county audit findings had not been adequately resolved. There were two from the 2011 audit, one from 2006, and one from 2004.

We noted the following:

- One member had ineligible contributions refunded; however, the $50 distribution fee had not been refunded to the member, nor had the $880 in ineligible contributions been refunded to the county. This was identified in the calendar year 2011 audit report.

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

- Two counties had previously been identified as having inadequate procedures for monitoring their part-time employees. Without adequate procedures to track part-time employees' hours worked, the counties may not identify staff who should be contributing to the plan. NPERS had not adequately followed up with those counties to determine whether they had implemented adequate procedures. One county was identified in the calendar year 2004 report and the other during the calendar year 2006 audit report.
- One county member's Social Security number was incorrect in the plan's record keeping systems. This was identified in the calendar year 2011 audit report.

A similar finding was reported in the previous audit report.

Without adequate procedures for the timely follow-up of previously identified problems, errors remain unresolved. When errors are not followed up on to ensure 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 findings are adequately followed up and resolved in a timely manner.

NPERS' Response: NPERS will continue to work to ensure all audit exceptions are reviewed and followed up. Two of the four findings have been resolved. The remaining two findings will be addressed with the counties.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

Report on the Financial Statements
We have audited the accompanying Statements of Plan Net Position and the related Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements, as listed in the Table of Contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans, as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans, are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of December 31, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress on page 37 and Schedules of Employer Contributions on page 38 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary and Other Information

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 2012 Expenses and Fees, Average Administrative Expense Per Member for Calendar Year 2012, and Total Benefits and Refunds Paid are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information on pages 39 through 41 is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on pages 39 through 41 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2013, on our consideration of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

August 28, 2013

Philip J. Olsen, CPA, CISA
Audit Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET POSITION
AS OF DECEMBER 31, 2012

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 82,166	$ 136,558
Receivables:		
Contributions	2,300,871	712,831
Interest	1,477,796	7,633
Other Receivables (Note 4)	37,689,014	-
Receivable from Defined Contribution Plan (Note 12)	227,897,910	-
Total Receivables	269,365,591	720,464
Investments, at fair value (Note 4):		
U.S. Treasury Bills	1,117,858	
U.S. Treasury Notes and Bonds	22,450,356	-
Government Agency Securities	5,708,072	-
Corporate Bonds	57,192,587	-
International Bonds	21,314,545	-
Asset Backed Securities	5,418,330	-
Guaranteed Investment Contracts	-	93,907,071
Short Term Investments	41,848,438	21,392,586
Commingled Funds	427,925,292	647,747,621
Mortgages	44,987,851	-
Municipal Bonds	4,898,563	-
Private Equity Funds	34,797,058	-
Equity Securities	126,092,721	-
Options	(35,529)	-
Private Real Estate Funds	24,341,557	-
Total Investments	818,057,699	763,047,278
Invested Securities Lending Collateral (Note 4)	25,434,206	202,086
Capital Assets (Note 9):		
Equipment	2,576,507	1,639,851
Less: Accumulated Depreciation	(2,575,824)	(1,639,071)
Total Capital Assets	683	780
Total Assets	1,112,940,345	764,107,166
LIABILITIES		
Compensated Absences (Notes 7 and 8)	35,114	17,456
Other Payables (Note 4)	52,572,589	340,914
Benefits Payable	1,484,480	-
Payable to Cash Balance Plan (Note 12)	-	227,897,910
Obligations Under Securities Lending (Note 4)	25,434,206	202,086
Total Liabilities	79,526,389	228,458,366
Net Position - Restricted for Pension Benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 37.)	$ 1,033,413,956	$ 535,648,800

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN

STATEMENT OF PLAN NET POSITION

AS OF DECEMBER 31, 2012

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 63,828	$ 122,208
Receivables:		
Contributions	778,792	184,858
Interest	446,379	1,794
Other Receivables (Note 4)	11,378,434	-
Receivable from Defined Contribution Plan (Note 12)	43,833,203	-
Total Receivables	56,436,808	186,652
Investments, at fair value (Note 4):		
U.S. Treasury Bills	337,486	
U.S. Treasury Notes and Bonds	6,777,836	-
Government Agency Securities	1,723,286	-
Corporate Bonds	17,266,627	-
International Bonds	6,434,930	-
Asset Backed Securities	1,635,812	-
Guaranteed Investment Contracts	-	18,124,759
Short Term Investments	13,503,885	4,108,069
Commingled Funds	129,192,036	178,084,609
Mortgages	13,581,978	-
Municipal Bonds	1,478,892	-
Private Equity Funds	10,505,345	-
Equity Securities	38,067,802	-
Options	(10,726)	-
Private Real Estate Funds	7,348,795	-
Total Investments	247,843,984	200,317,437
Invested Securities Lending Collateral (Note 4)	7,678,668	38,989
Capital Assets (Note 9):		
Equipment	1,377,366	772,302
Less: Accumulated Depreciation	(1,376,977)	(771,913)
Total Capital Assets	389	389
Total Assets	312,023,677	200,665,675
LIABILITIES		
Compensated Absences (Notes 7 and 8)	24,796	11,039
Other Payables (Note 4)	15,872,749	86,081
Benefits Payable	782,175	-
Payable to Cash Balance Plan (Note 12)	-	43,833,203
Obligations Under Securities Lending (Note 4)	7,678,668	38,989
Total Liabilities	24,358,388	43,969,312
Net Position - Restricted for Pension Benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 37.)	$ 287,665,289	$ 156,696,363

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 20,863,102	$ 10,703,699
Employer (Note 5)	32,511,438	16,687,794
Total Contributions	53,374,540	27,391,493
Investment income:		
Net appreciation in fair value of investments	83,917,583	65,756,948
Interest & Dividends	10,579,754	7,111,459
Securities Lending Income	269,750	79,401
Total Investment Income	94,767,087	72,947,808
Investment Expenses		
Investment Expenses	(1,886,123)	(181,696)
Securities lending expense	(66,879)	(26,939)
Net investment income	92,814,085	72,739,173
Other Additions (Note 12)	227,904,310	6,600
Total Additions	374,092,935	100,137,266
DEDUCTIONS:		
Benefits and Refunds	46,687,002	35,923,599
Administrative expenses	851,010	416,570
Other Deductions (Note 12)	415,341	228,459,071
Total Deductions	47,953,353	264,799,240
TRANSFERS (Note 10)	4,779,347	(4,779,347)
Change in Plan Net Position	330,918,929	(169,441,321)
Net Position - Restricted for Pension Benefits		
Beginning of year	702,495,027	705,090,121
End of year	$ 1,033,413,956	$ 535,648,800

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN

STATEMENT OF CHANGES IN PLAN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2012

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 8,637,598	$ 3,524,035
Employer (Note 5)	12,800,386	5,233,140
Total Contributions	21,437,984	8,757,175
Investment income:		
Net appreciation in fair value of investments	24,936,660	17,332,314
Interest & Dividends	3,155,547	1,728,274
Securities Lending Income	81,438	15,319
Total Investment Income	28,173,645	19,075,907
Investment Expenses		
Investment Expenses	(625,227)	(42,910)
Securities lending expense	(20,191)	(5,197)
Net investment income	27,528,227	19,027,800
Other Additions (Note 12)	43,835,067	1,305
Total Additions	92,801,278	27,786,280
DEDUCTIONS:		
Benefits and Refunds	14,483,630	6,959,837
Administrative expenses	507,295	217,141
Other Deductions (Note 12)	104,048	43,833,203
Total Deductions	15,094,973	51,010,181
TRANSFERS (Note 10)	1,229,814	(1,229,814)
Change in Plan Net Position	78,936,119	(24,453,715)
Net Position - Restricted for Pension Benefits		
Beginning of year	208,729,170	181,150,078
End of year	$ 287,665,289	$ 156,696,363

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

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, 2012, 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 Position.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

G. Compensated Absences

All permanent employees working for NPERS earn sick and annual leave. Temporary and intermittent employees and Board members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees 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 annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 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 annual and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

H. Use of Estimates

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

2. Plan Descriptions

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

2. Plan Descriptions (Continued)

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 to 18.

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

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

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

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance 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 percent annually. Also available are additional forms of payment allowed under the State Plan which are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Continued)

State Plan membership consisted of the following at December 31, 2012:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	910
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,677	4,404
Active Plan Members	4,480	10,869
Total	6,157	16,183

The 910 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
2012	$ 94,005	$ 146,647
2011	90,928	141,847
2010	90,336	140,924

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 (Reissue 2012).

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.

2. Plan Descriptions (Continued)

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

Contributions. Per statutes, county employees and elected officials contribute 4.5 percent of their total compensation and the county 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 5.5 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 6.5 percent of their total compensation; the county matches 150 percent for the first 4.5 percent and 100 percent for the extra 1 and 2 percent. The employee's and employer's contributions are kept in separate accounts.

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

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

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance 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 percent 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.

2. **Plan Descriptions** (Concluded)

County Plan membership consisted of the following at December 31, 2012:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	350
Terminated Plan Members Entitled to but not yet Receiving Benefits	757	1,687
Active Plan Members	1,717	5,766
Total	2,474	7,803

The 350 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

3. **Funded Status and Funding Progress**

The funded status of each cash balance benefit as of December 31, 2012, 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	$1,009,414,476	$ 1,077,957,772	$ 68,543,296	93.6%	$ 500,493,490	13.7%
County	281,261,645	297,572,626	16,310,981	94.5%	202,786,048	8.0%

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, 2012	December 31, 2012
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

	State	County
Remaining amortization period	22 Years	23 Years
Asset valuation method	5 Year Smoothing	5 Year Smoothing
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.0% to 5.4%	4.3% to 8.5%
Cost-Of-Living Adjustments (COLA)	None	None

* Includes assumed inflation of 3.25% per year.

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Reissue 2009) 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, 2012, 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, 2012

	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	$ 29,228,192	5.91	$ -	-
U.S. Treasury Bills	1,455,344	0.71	-	-
Government Agency Securities	7,431,358	3.78	-	-
Corporate Bonds	74,459,214	5.20	-	-
International Bonds	27,749,475	7.57	-	-
Asset Backed Securities	7,054,142	4.73	-	-
Guaranteed Investment Contracts	-	-	112,031,830	2.72
Short Term Investments	55,352,323	0.09	25,500,655	0.00
Commingled Funds	80,068,039	4.40	280,193,981	4.53
Mortgages	58,569,829	3.45	-	-
Municipal Bonds	6,377,455	11.76	-	-
	347,745,371		417,726,466	
Other Investments				
Private Equity Funds	45,302,403		-	
Equity Securities	164,160,523		-	
Commingled Funds	477,049,289		545,638,249	
Options	(46,255)		-	
Private Real Estate Funds Trust	31,690,352		-	
Total Investments	1,065,901,683		963,364,715	
Invested Securities Lending Collateral	33,112,874		241,075	
Total	$ 1,099,014,557		$ 963,605,790	
As reported on the financial statements:				
Investments				
State	$ 818,057,699		$ 763,047,278	
County	247,843,984		200,317,437	
Total Investments	1,065,901,683		963,364,715	
Securities Lending Collateral				
State	25,434,206		202,086	
County	7,678,668		38,989	
Total Securities Lending Collateral	33,112,874		241,075	
Total reported on financial statements	$ 1,099,014,557		$ 963,605,790	

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 and BB for high yield fixed income in its fixed income account. NPERS' rated debt investments as of December 31, 2012, 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, 2012
Quality Ratings

	Cash Balance Benefit								Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**	**Fair Value**	**Unrated**
Asset Backed Securities	$ 7,054,142	$ 4,184,184	$ 1,253,501	$ 585,761	$ 543,421	$ 21,443	$ 248,002	$ 217,830	$ -	$ -
Mortgages	58,569,829	5,261,825	44,653,373	1,526,940	705,276	462,268	356,576	5,603,571	-	-
International Bonds	27,749,475	13,567,370	3,485,390	2,039,808	6,434,549	1,630,728	60,832	530,798	-	-
Corporate Bonds	74,459,214	5,473,438	6,198,050	25,850,428	17,674,885	9,812,073	7,477,039	1,973,301	-	-
Government Agency Securities	7,431,358	106,491	1,566,350	664,335	-	-	-	5,094,182	-	-
Municipal Bonds	6,377,455	1,837,888	1,801,961	2,118,365	566,887	52,354	-	-	-	-
Short Term Investments	55,352,323	90,101	1,086,519	2,719,423	-	72,748	-	51,383,532	25,500,655	25,500,655
Commingled Funds	80,068,039	-	-	-	-	-	-	80,068,039	280,193,981	280,193,981

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, 2012, 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, 2012, 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, 2012

	Asset Backed Securities	Corporate Bonds	International Bonds	Government Agency	Mortgages	Short Term Investments	Equity Securities
Australian Dollar	$ -	$ 181,195	$ 324,116	$ -	$ -	$ 78,435	$ 963,692
Brazilian Real	-	283,263	133,576	-	-	248,863	660,443
Canadian Dollar	-	107,695	7,297,386	38,294	-	199,329	1,380,634
Chilean Peso	-	143,330	-	-	-	-	-
Colombian Peso	-	79,827	-	-	-	-	-
Czech Koruna	-	-	-	-	-	-	172,355
Danish Krone	-	-	147,039	-	-	3,997	269,859
Euro Currency	167,500	10,624,175	6,845,222	-	330,489	344,744	38,836,582
Hong Kong Dollar	-	-	-	-	-	(344)	2,818,563
Indian Rupee	-	-	-	-	-	-	-
Indonesian Rupiah	-	-	-	-	-	-	354,866
Japanese Yen	-	-	2,677,214	-	-	75,190	14,498,496
Malaysian Ringgit	-	-	815,286	-	-	26,200	-
Mexican Peso	-	48,445	1,048,062	-	-	90,772	383,719
New Zealand Dollar	-	-	138,429	-	-	3	-
Norwegian Krone	-	-	1,692,108	-	-	5,356	331,104
Philippine Peso	-	-	354,483	-	-	-	-
Polish Zloty	-	-	-	-	-	5,672	396,098
Pound Sterling	-	1,313,192	1,071,973	-	47,572	232,067	11,199,629
Singapore Dollar	-	-	-	-	-	20,341	1,212,740
South African Rand	-	-	-	-	-	(15,256)	46,777
South Korean Won	-	-	-	-	-	689,818	3,023,381
Swedish Krona	-	-	1,179,755	-	-	10,330	2,708,627
Swiss Franc	-	-	-	-	-	110	8,429,129
Thailand Baht	-	-	-	-	-	(32,091)	621,175
Uruguayan Peso	-	-	49,085	-	-	-	-
Total	$ 167,500	$ 12,781,122	$ 23,773,734	$ 38,294	$ 378,061	$ 1,983,536	$88,307,869

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 26 to 40 days as of June 30, 2012. 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, 2012, 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, 2012, 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, 2012

Derivative	Change in Fair Value	Fair Value	Notional
Credit Defaults Swaps	$ (137,512)	$ 34,903	$ 1,715,660
Fixed Income Futures	(101,041)	-	7,983,391
Fixed Income Options	1,669	(46,255)	(3,042,437)
Futures Options	27,362	-	-
FX Forwards	(304,838)	(316,236)	33,237,135
Interest Rate Swaps	295,265	552,337	9,491,743
Rights	8,971	-	-
Warrants	34,010	34,021	21,914

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, 2012, 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, 2012, was $497,430. 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 $497,430.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, there is approximately 76 percent of the net exposure to credit risk, held with five counterparties. The counterparties are rated A or AA.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2012, was as follows:

DERIVATIVES FOREIGN CURRENCY AT
DECEMBER 31, 2012

Currency	Swaps	Forward Contracts
Australian Dollar	$ -	$ (13,383)
Brazilian Real	154,954	1,227
Canadian Dollar	-	17,349
Swiss Franc	-	5,196
Yuan Renminbi	-	8,769
Czech Koruna	-	(16,730)
Danish Krone	-	(9,505)
Euro Currency	82,823	(87,840)
Pound Sterling	231,443	510
Japanese Yen	-	(226,770)
South Korean Won	-	4,404
Mexican Peso	64,340	6,737
Malaysian Ringgit	-	(18)
Norwegian Krone	-	13,402
New Zealand Dollar	-	3,167
Philippine Peso	-	(111)
Polish Zloty	-	3,271
Swedish Krona	-	(26,363)
Singapore Dollar	-	55
Thailand Baht	-	397
Total	$ 533,560	$ (316,236)

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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 3.13 percent during calendar year 2012. The fair value of those contracts at December 31, 2012, was $100,233,927 and the contract value was $95,770,848.

SGIC Components	Fair Value
Underlying Investments	$ 100,233,927
Wrap Contract	-
Total	$ 100,233,927

(Continued on Next Page)

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.

			Investments Underlying SGICs Quality Ratings at December 31, 2012					
	Effective Duration	Fair Value	AAA	AA	A	BBB	BB	Unrated
Asset Backed Securities	1.36	$ 10,659,458	$ 10,555,101	$ 15,201	$ 89,156	$ -	$ -	$ -
Corporate Bonds	2.82	44,637,003	1,900,884	8,368,962	22,045,059	11,971,945	350,153	-
Government Agency Securities	3.94	12,832,229	-	11,675,497	345,488	-	-	811,244
International Bonds	3.19	2,204,836	1,014,330	1,021,387	169,119	-	-	-
Mortgages	1.89	20,189,731	4,421,826	14,781,051	330,096	-	-	656,758
Short Term Investments	0.59	3,048,190	-	-	385,298	-	-	2,662,892
US Treasury Notes	5.15	6,662,480	-	-	-	-	-	6,662,480
		$ 100,233,927						

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, 2012, 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) (Reissue 2012) and Neb. Rev. Stat. § 84-1321.01(1) (Cum. Supp. 2012), forfeitures are used to pay administrative expenses of the Board. The balance of the Defined Contribution forfeiture accounts at December 31, 2012, was $0 for the State Plan and $0 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $6,330,374 for the State Plan and $1,315,092 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Newly acquired properties are covered up to $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various 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, 2012, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 18,235	$ 9,065	$ 12,877	$ 5,733
Sick Leave	16,879	8,391	11,919	5,306
	$ 35,114	$ 17,456	$ 24,796	$ 11,039

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2012, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Defined Contribution					
Compensated Absences	$ 15,380	$ 2,076	$ -	$ 17,456	$ 1,222
State Cash Balance Benefit					
Compensated Absences	$ 30,476	$ 4,638	$ -	$ 35,114	$ 2,458
County Defined Contribution					
Compensated Absences	$ 9,423	$ 1,616	$ -	$ 11,039	$ 773
County Cash Balance Benefit					
Compensated Absences	$ 20,678	$ 4,118	$ -	$ 24,796	$ 1,736

9. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contribution				
Equipment	$ 1,639,851	$ -	$ -	$ 1,639,851
Less: Accumulated Depreciation	1,609,923	29,148	-	1,639,071
Capital Assets, Net	$ 29,928	$ (29,148)	$ -	$ 780
State Cash Balance Benefit				
Equipment	$ 2,576,507	$ -	$ -	$ 2,576,507
Less: Accumulated Depreciation	2,550,319	25,505	-	2,575,824
Capital Assets, Net	$ 26,188	$ (25,505)	$ -	$ 683
County Defined Contribution				
Equipment	$ 772,302	$ -	$ -	$ 772,302
Less: Accumulated Depreciation	757,338	14,575	-	771,913
Capital Assets, Net	$ 14,964	$ (14,575)	$ -	$ 389

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Capital Assets (Concluded)

County Cash Balance Benefit

Equipment	$ 1,377,366	$ -	$ -	$ 1,377,366
Less: Accumulated Depreciation	1,362,402	14,575	-	1,376,977
Capital Assets, Net	$ 14,964	$ (14,575)	$ -	$ 389

10. Transfers

Transfer activity for the year ended December 31, 2012, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 4,439,077	$ (4,439,077)
Miscellaneous Transfers	340,270	(340,270)
Total Transfers	$ 4,779,347	$ (4,779,347)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 1,027,404	$ (1,027,404)
Miscellaneous Transfers	202,410	(202,410)
Total Transfers	$ 1,229,814	$ (1,229,814)

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

11. Equal Retirement Benefit Fund (Concluded)

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, 2012, there was a balance of $495,876 in the State ERBF and a balance of $314,920 in the County ERBF.

12. Defined Contribution Member Transfer to Cash Balance Plan

2012 Neb. Laws LB 916 allowed for State and county employees participating in the Defined Contribution Plan to make a one-time election to begin participating in the Cash Balance Benefit Plan, effective January 2, 2013.

Included in the other deductions and other additions on the Statement of Changes in Plan Net Position are member accounts transferred, at January 2, 2013, totaling $227,897,910 from the State Defined Contribution Plan into the State Cash Balance Benefit Plan and $43,833,203 transferred from the County Defined Contribution Plan into the County Cash Balance Benefit Plan. There were 1,264 State members and 366 County members that elected to transfer.

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, 2012

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						
12/31/2012	$ 1,009,414,476	$ 1,077,957,772	$ 68,543,296	93.6%	$ 500,493,490	13.7%
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%)
COUNTY EMPLOYEES						
12/31/2012	$ 281,261,645	$ 297,572,626	$ 16,310,981	94.5%	$ 202,786,048	8.0%
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%)

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF EMPLOYER CONTRIBUTIONS

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2012

STATE EMPLOYEES

Year Ended December 31	Annual Required Contribution-State	Percentage Contributed
2012	$ 32,511,438	100%
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%

COUNTY EMPLOYEES

Year Ended December 31	Annual Required Contribution-Counties	Percentage Contributed
2012	$ 12,800,386	100%
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%

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

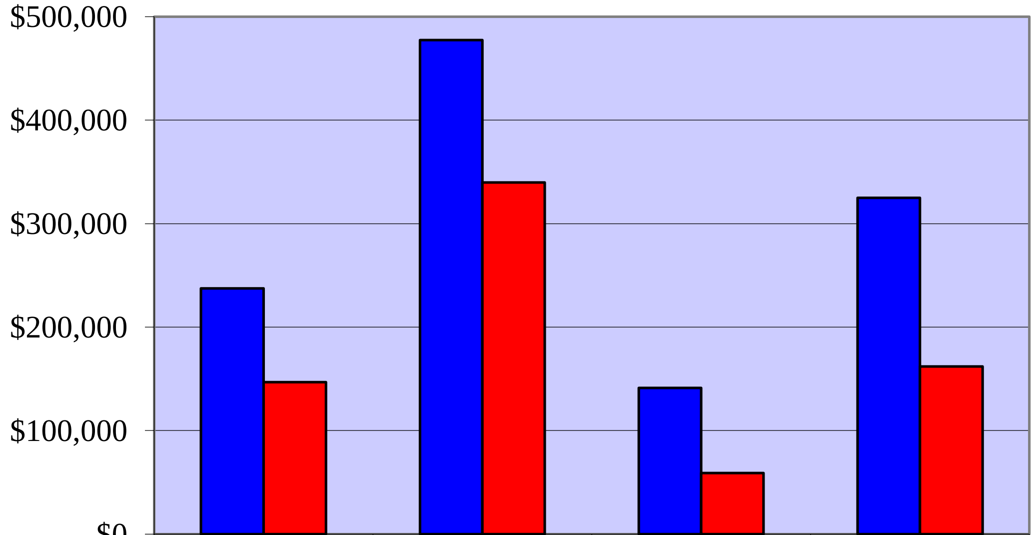
STATE DEFINED CONTRIBUTION	2008	2009	2010	2011	2012
Members:					
Active	5,810	5,588	5,224	4,841	4,480
Inactive	1,682	1,573	1,606	1,629	1,677
Total Members	7,492	7,161	6,830	6,470	6,157
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 829,346	$ 742,674	$ 413,902	$ 220,988	$ 237,360
Record-keeper fees (3)	167,841	133,896	109,886	145,636	146,836
Total Cash Basis Fees and Expenses	$ 997,187	$ 876,570	$ 523,788	$ 366,624	$ 384,196
Administrative Expenses per GAAP financial statements	$ 1,016,824	$ 646,490	$ 630,739	$ 535,933	$ 416,570
Average Administrative Expense per member (1)	$ 136	$ 90	$ 92	$ 83	$ 68
STATE CASH BALANCE					
Members:					
Active	11,390	11,749	11,238	11,278	10,869
Inactive	2,440	2,151	2,707	3,249	4,404
Total Members	13,830	13,900	13,945	14,527	15,273
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 801,318	$ 799,750	$ 682,945	$ 454,507	$ 477,413
Record-keeper fees (3)	260,108	241,554	204,892	293,183	339,884
Total Cash Basis Fees and Expenses	$ 1,061,426	$ 1,041,304	$ 887,837	$ 747,690	$ 817,297
Administrative Expenses per GAAP financial statements	$ 989,480	$ 692,870	$ 984,012	$ 899,626	$ 851,010
Average Administrative Expense per member (1)	$ 72	$ 50	$ 71	$ 62	$ 56
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	2,243	2,144	1,982	1,841	1,717
Inactive	813	743	756	745	757
Total Members	3,056	2,887	2,738	2,586	2,474
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 362,215	$ 363,444	$ 212,671	$ 98,925	$ 141,348
Record-keeper fees (3)	68,720	55,240	44,955	87,923	59,045
Total Cash Basis Fees and Expenses	$ 430,935	$ 418,684	$ 257,626	$ 186,848	$ 200,393
Administrative Expenses per GAAP financial statements	$ 445,787	$ 258,522	$ 313,142	$ 273,040	$ 217,141
Average Administrative Expense per member (1)	$ 146	$ 90	$ 114	$ 106	$ 88
COUNTY CASH BALANCE					
Members:					
Active	5,468	5,633	5,637	5,811	5,766
Inactive	890	800	1,076	1,354	1,687
Total Members	6,358	6,433	6,713	7,165	7,453
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 433,074	$ 438,558	$ 359,602	$ 292,172	$ 324,912
Record-keeper fees (3)	118,125	109,915	92,721	143,457	162,063
Total Cash Basis Fees and Expenses	$ 551,199	$ 548,473	$ 452,323	$ 435,629	$ 486,975
Administrative Expenses per GAAP financial statements	$ 491,687	$ 341,948	$ 508,714	$ 526,770	$ 507,295
Average Administrative Expense per member (1)	$ 77	$ 53	$ 76	$ 74	$ 68

(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.

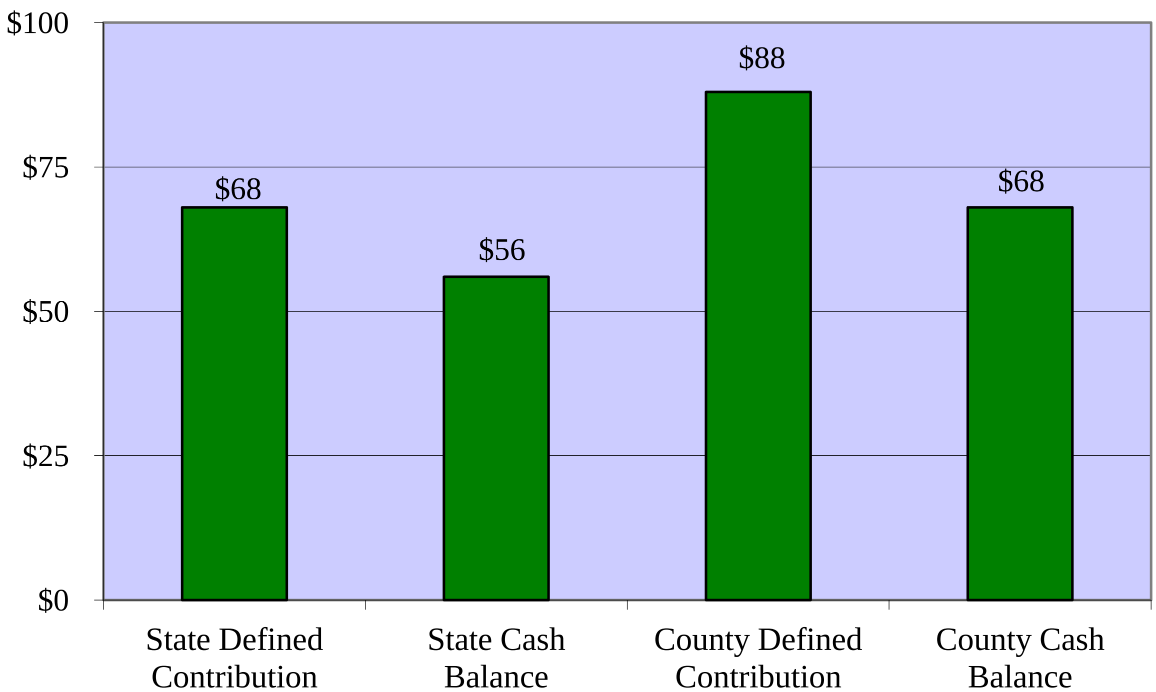
(3) Record-keeper fees are amounts charged by the record-keeper to members for record-keeping services. This is the amount members see as fees on their quarterly statements.

CALENDAR YEAR 2012 EXPENSES AND FEES



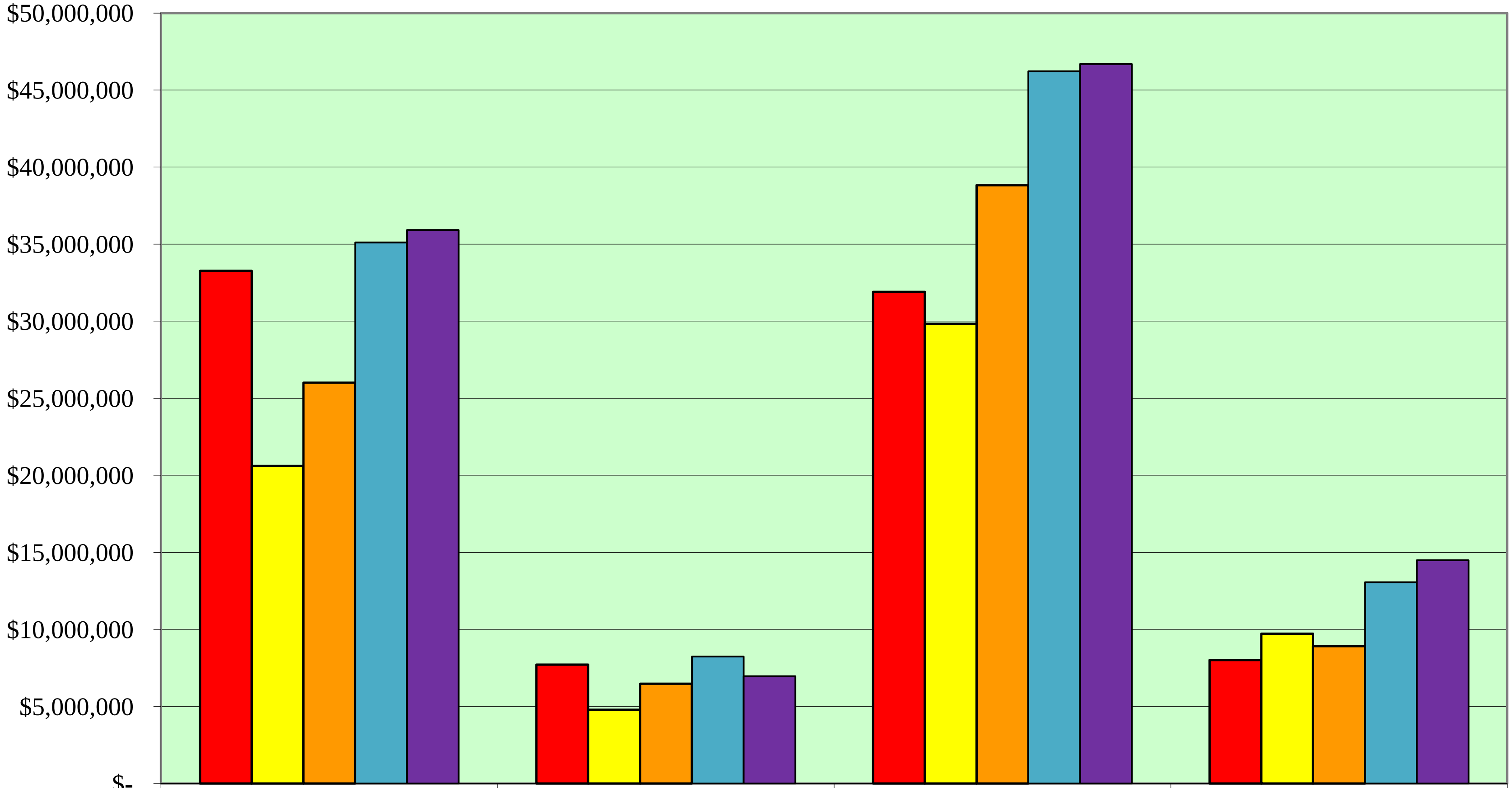
	State Defined Contribution	State Cash Balance	County Defined Contribution	County Cash Balance
NPERS expenses	$237,360	$477,413	$141,348	$324,912
Record-Keeper Fees	$146,836	$339,884	$59,045	$162,063

AVERAGE ADMINISTRATIVE EXPENSE PER MEMBER FOR CALENDAR YEAR 2012



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
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
2012	$35,923,599	$6,959,837	$46,687,002	$14,483,630

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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

Independent Auditor's Report

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements, as of and for the year ended December 31, 2012, and have issued our report thereon dated August 28, 2013. The report was modified to disclose that the Management's 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Additional items

We noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans in the Comments Section of this report as Comment Number 1 (Non-Contributing Members) and Comment Number 2 (Inadequate Resolution of Prior Year Findings).

Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' Response to Findings

The Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' responses to the findings identified in our audit are described in the Comments Section of the report. Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans declined to respond.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

August 28, 2013

Philip J. Olsen, CPA, CISA
Audit Manager