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

PENSION TRUST FUNDS OF THE STATE OF NEBRASKA

JULY 1, 2006 THROUGH JUNE 30, 2007

Issued on February 7, 2008

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

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BACKGROUND

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

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

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

Two appointed members must meet the following requirements:

- ♦ 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. As of July 1, 2005, members of the Board shall be paid fifty dollars per diem, and all members shall be 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.

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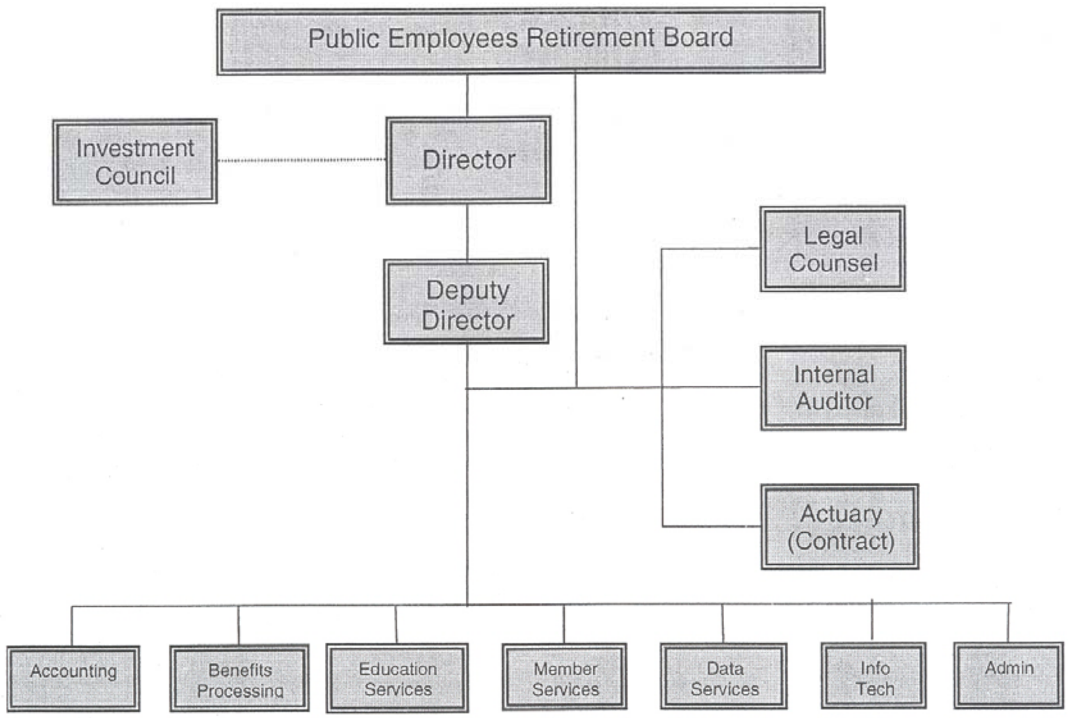
ORGANIZATIONAL CHART



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EXIT CONFERENCE

An exit conference was held December 20, 2007, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our audit. Those in attendance for NPERS were:

NAME	TITLE
Phyllis Chambers	Director
Denis Blank	Board Member
Teresa Zulauf	Internal Auditor
Randy Gerke	Accounting and Finance Manager
Jerry Brown	IT Manager
Jane Bond	Member Services Manager
Sheryl Hesseltine	Accountant II
Mitch Snyder	Retirement Specialist II
Paul Carlson	State Accounting Administrator

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SUMMARY OF COMMENTS

During our audit of the Nebraska Public Employees Retirement Systems (NPERS) - School Employees, Judges, and State Patrol Retirement Plans, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Benefit Adjustments:*** NPERS' calculations for one method of benefit adjustments did not appear to be in agreement with the literal interpretation of the statutes. The errors in the calculation ranged from $224 to $914 for the year. NPERS also did not appear to be in compliance with statutes that limit the benefit adjustment so as not to exceed the change in the Consumer Price Index (CPI). Four of five patrol members tested received adjustments in excess of the change in the CPI dating back to July 2000. NPERS applied the calculation of the change in the CPI inconsistently in one of the three methods to calculate the benefit adjustment.

2. ***School District Testing:*** There is an inconsistency among districts regarding the definition of compensation and components of compensation for retirement purposes. Eleven of thirty school districts tested did not have all eligible employees contributing to the Plan. Thirteen of thirty school districts tested reported compensation that was not in compliance with the definition of compensation in the School Employees Retirement Act. Seven of thirty school districts tested did not report actual hours to NPERS.

3. ***Resolution of Prior Audit Findings – School District Testing:*** Prior audit findings were not appropriately resolved for four school districts from fiscal year 2006, six school districts from fiscal year 2005, four school districts from fiscal year 2004, and one school district from fiscal year 2003.

4. ***Purchase of Service*****:** NPERS continued to rely on the Pension Information of Nebraska for Efficient and Effective Retirement (PIONEER) system to calculate purchase of service payments through March 2007, even though we had expressed concerns with the accuracy of the calculations in prior audits. Two of five payments tested were not calculated in accordance with the statutes. There was one overpayment from a member of $98, and one underpayment from a member of $31. In addition, NPERS did not recalculate all purchase of service from repayment of a refund, as recommended in the prior year audit.

5. ***Benefit Paid to Estate:*** NPERS did not properly pay out all payments owed to the estate of a deceased beneficiary until we brought the matter to their attention. The total amount due to the estate was $8,473.

SUMMARY OF COMMENTS
(Continued)

6. ***Notarized Applications:*** We noted 5 of 13 Judges' retirement applications tested and 4 of 15 School Employee retirement applications tested were not notarized to ensure the individual requesting the payment was entitled to the benefit payment.

7. ***Verification of Salary Caps:*** NPERS did not require school districts to provide information to support a substantial change in employment as required by statute for one of three members tested whose compensation exceeded seven percent of the compensation base by $508 between fiscal year 2005 and fiscal year 2006.

8. ***Information Technology:*** Areas of concern where improvement of the NPERS information system is needed to ensure both system integrity and operational efficiency were identified.

9. ***Minimum Accrual Rate:*** NPERS did not calculate the minimum accrual rate in compliance with statutes.

10. ***Member Interest:*** Interest was posted to member accounts at the end of the month based on the beginning of the month balances. In January 2004, two cost estimates were brought to the Board to change system requirements. One to make the change to calculate interest on the average daily balance and the second to change back to applying interest to the balance at the end of the month. The policy has not been revisited by the Board.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of NPERS.

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.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

COMMENTS AND RECOMMENDATIONS

1. Benefit Adjustments

NPERS did not follow-up on the prior audit finding relating to the annual cost-of-living adjustments (COLAs). The PIONEER system did not correctly calculate the annual increases and NPERS did not resolve the issue prior to another annual adjustment being granted.

Neb. Rev. Stat. Sections 24-710.07, 79-947.01, and 81-2027.03 R.S.Supp., 2006 state that beginning July 1, 2000, and each July 1 thereafter, current benefits paid to a member or beneficiary shall be adjusted so that the purchasing power of the benefit being paid is not less than 60 percent for the State Patrol Plan and 75 percent for the School Employees and Judges Plans, of the purchasing power of the initial benefit. The Board shall adjust the annual benefit adjustment provided in this section so that the total amount of all COLAs provided to the eligible retiree does not exceed the change in the National Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) published by the Bureau of Labor Statistics for the period between June 30 of the prior year to June 30 of the current year.

Good internal control requires procedures to ensure findings from the prior audit are appropriately resolved so that further errors in the COLA calculations can be avoided. Good internal control also requires procedures to ensure the annual adjustments are accurate.

The calculation of the adjustment in PIONEER did not follow the literal interpretation of the statutes. We have worked with NPERS to document our understanding of the calculation of the purchasing power of the original benefit and the subsequent adjustments required under the statutes. It is our understanding NPERS has provided draft language of these statutes to the Legislative Retirement Committee to clarify the calculation intended by the statutes.

During testing we noted 1 of 14 School Employees Plan members, 2 of 7 State Patrol Plan members, and 1 of 9 Judges Plan members received the COLA adjustment under Method 1; however, their benefit was above the purchasing power floor, so they should not have been eligible for Method 1 described above in statutes. Excess payments for the year ranged from $224 to $914 for the four members.

The calculation in PIONEER was also not limited to the change in the CPI-W from the prior year to the current year. We reviewed the same five State Patrol Plan members as tested in the prior audit and again found that four of the five State Patrol members received COLA increases as of July 1, 2007, that exceeded the 2.67 percent change in the CPI-W from fiscal year 2006 to fiscal year 2007. The four State Patrol members received COLA increases of 3.2%, 3.3%, 3.43%, and 3.71%. All four State Patrol members were already receiving a benefit above 60 percent of the purchasing power of their original benefit, so their annual adjustment at July 1, 2007, should have been limited to 2.5 percent.

A similar finding was noted in the previous audit report. These errors could potentially affect many plan members.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Benefit Adjustments (Concluded)

There is an increased risk the annual adjustments will be incorrect without proper procedures to ensure an adequate and timely resolution of prior audit findings. Additionally, granting increases that are larger than required by statutes could adversely affect the funding status of the Plans.

> We recommend NPERS continue to work with the Legislature to ensure the language in the statute is accurate and understandable. We further recommend NPERS provide testimony to the Legislative Retirement Committee that would define the meaning of "percentage change" and the initial year of the CPI-W factor to be used in the calculation.
>
> We recommend NPERS ensure all members are at or above the purchasing power of their initial benefit as defined in the statutes.
>
> Finally, we recommend NPERS ensure their new IT system correctly calculates the COLAs in accordance with statutes and appropriately limits the increases to the change in the CPI-W from the prior year to the current year.

NPERS' Response: We have been working with the State Auditor's office concerning the language in the statutes. We have submitted language to the Retirement Committee of the Legislature for their consideration this session. We will work with the vendor converting the new IT system to make sure the COLA calculations are programmed according to statute.

2. School District Testing

Neb. Rev. Stat. Section 84-1503(1)(g) R.S.Supp., 2006 states it is the Board's responsibility, "To 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."

Neb. Rev. Stat. Section 79-906(1) R.S.Supp., 2006 states, "The director shall, from time to time, carry out testing procedures pursuant to section 84-1512 to verify the accuracy of such information."

Good internal control requires procedures to ensure the contributions remitted by school districts are complete and accurate. Good internal control also requires procedures to ensure all eligible and only eligible employees join the School Employees Retirement Plan (School Plan).

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>School District Testing</u> (Continued)

NPERS did not have adequate sampling and monitoring procedures in place to ensure school districts correctly calculated and reported contributions, hours worked, and salary information. Although NPERS reviewed 15 schools during fiscal year 2007, most were smaller schools which made up approximately 1.9 percent of the total contributions. We reviewed payroll records at 30 of the 475 school districts. The amounts contributed by these 30 school districts, totaling $37,349,555, represented approximately 18 percent of the total contributions for all school districts for the fiscal year. The sample size included 269 contributing members. The 269 members consisted of 135 members selected from NPERS' records and 134 members from the school districts' records. In addition, we tested 131 employees from the school districts' payroll registers who were not contributing to the School Plan. We noted the following:

- There is an inconsistency among school districts regarding the definition of compensation and the components of compensation for retirement purposes. School districts are inconsistently handling certain benefit dollars that may be used for insurance purposes or may be taken in cash. A similar finding was noted in the past several audit reports.

- Thirteen of thirty school districts tested reported compensation which was not in compliance with the definition of compensation in the School Employees Retirement Act. This included 23 of 135 contributing members tested. The school districts included the following items in compensation for retirement purposes: retirement allowances used to purchase service, bonuses, employee's share of retirement paid by the school, cash-in-lieu payments, expense reimbursement payments, and long-term disability. Neb. Rev. Stat. Section 79-902(35) R.S.Supp., 2006 specifically excludes these items from compensation for retirement purposes. These errors resulted in overstatements of the members' annual compensation ranging from $83 to $17,215, and excess annual retirement contributions ranging from $13 to $2,709. A similar finding was noted in the past several audit reports.

- Eleven of thirty school districts tested did not have all eligible employees contributing to the School Plan. We noted 16 of 131 employees tested should have been contributing to the School Plan because they consistently worked over 15 hours per week or 60 hours per month; therefore, these employees need to make up contributions. According to Neb. Rev. Stat. Section 79-902(10) R.S.Supp., 2006 a contributing member is a regular employee who receives compensation from a public school. A regular employee is defined by Neb. Rev. Stat. Section 79-902(40) R.S.Supp., 2006 as "an employee hired by a public school or under contract in a regular full-time or part-time position who works a full-time or part-time schedule on an ongoing basis for fifteen or more hours per week." A similar finding was noted in the past several audit reports.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>School District Testing</u> (Concluded)

- Seven of thirty school districts tested did not report actual hours to NPERS. This included 8 of 269 members tested. Hour variances for the month tested ranged from one hour over-reported to 68 hours under-reported. These errors affected the annual service credit for each member. A similar finding was noted in the past several audit reports.

Without adequate procedures in place by NPERS to ensure dollar amounts and hours are correctly reported, in accordance with statutes and consistent between school districts, there is a high risk errors such as those noted above will remain undetected. Also, since the benefit amount at retirement is calculated based in part on the reported salaries and hours of the members, there is an increased risk the benefit amount is not accurate. There is also a risk contributions needed to fund the School Plan are not adequate.

> We continue to recommend NPERS implement procedures to ensure the compensation and hours reported by school districts are correct and in compliance with statutes. NPERS should follow up with all exceptions noted during testing and consider further correspondence with all schools regarding the issues noted during our testing and NPERS' testing. NPERS should ensure adequate documentation is obtained from schools to ensure they have resolved the issues. NPERS should also examine current statutory language and implement modifications due to the various interpretations of compensation by school districts.

NPERS' Response: We continue to have a full-time employee dedicated to payroll testing remitted by employers. We have requested and received compensation information from schools. We are reviewing the information submitted by the school employers to ensure the accuracy of the information and to ensure retirement contributions are withheld at the correct rate.

3. <u>Resolution of Prior Audit Findings – School District Testing</u>

Good internal control requires the timely and thorough resolution of prior audit findings. Good internal control also requires NPERS to obtain proper documentation to ensure items are corrected. AICPA Professional Standards regard the failure by management to assess the effect of a significant deficiency previously communicated to them and either correct it or conclude that it will not be corrected would at least result in a significant deficiency and a strong indicator of material weakness in internal control.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Resolution of Prior Audit Findings – School District Testing</u> (Continued)

NPERS did not appropriately resolve prior audit findings for school districts in a timely manner. NPERS had contacted all of the school districts from the prior audit; however, 15 school districts from audits dated back to 2003 still had outstanding issues, as follows:

A. Findings for four school districts (one of which had two issues) from the fiscal year 2006 audit of the School Plan were not adequately resolved.

    - Three school districts tested had an employee that should have been contributing to the Plan. NPERS contacted the school and the employee is now contributing; however, make-up contributions have not been completed.

    - Two school districts had employees that should have been contributing to the Plan. NPERS had contacted the schools but the employees are still not contributing and have not made up contributions.

B. Findings for six school districts (one of which had two issues) from the fiscal year 2005 audit of the School Plan were not adequately resolved.

    - Four school districts were not calculating retirement contributions on the correct compensation as noted in the fiscal year 2005 audit. One of the schools tested corrected the issue; however, another compensation issue was discovered.

    - Two school districts had employees that should have been contributing to the Plan. NPERS had contacted the schools but the employees have not made up contributions.

    - One school district tested had an incorrect amount of retirement contributions withheld from an employee's paycheck. NPERS contacted the school district; however, the amount has not been deducted from the employee's pay.

C. Findings for four school districts from the fiscal year 2004 audit of the School Plan were not adequately resolved.

    - Two school districts were not calculating retirement contributions on the correct compensation as noted in the fiscal year 2004 audit. NPERS contacted the two schools and the issues tested were corrected; however, two new issues regarding compensation were discovered.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Resolution of Prior Audit Findings – School District Testing</u> (Concluded)

- One school district tested had an employee that should have been contributing to the Plan. NPERS contacted the school and the employee is now contributing; however, make-up contributions have not been completed.

- One school district was still not handling fringe benefits correctly pertaining to cash-in-lieu of insurance in accordance with statutes.

D. Findings for one school district from the fiscal year 2003 audit of the School Plan were not adequately resolved.

- One school district had an employee who was identified in the fiscal year 2003 audit as an employee who should be contributing to the School Plan. NPERS did not follow up on this individual for fiscal year 2007. NPERS and the school district have a different opinion on this member's employment status than the Auditor of Public Accounts (APA).

A similar finding was noted in the past several audit reports.

There is an increased risk errors in plan membership and compensation will remain incorrect, unless adequate procedures are developed to follow up on prior audit findings and resolve them in a timely manner.

> We recommend NPERS continue to follow up on audit findings in a timely manner. NPERS should address findings from prior audits, require make-up contributions for missed contributions, and request attorney general opinions for issues in which NPERS and the APA are in disagreement. We also recommend NPERS implement procedures to ensure adequate documentation is obtained from schools to ensure they have resolved the issues. NPERS should also consider whether to seek enforcement capabilities from the Legislature or whether to request statutory changes that would limit the State's liability when schools have been advised on noncompliance and no corrective action has been taken.

NPERS' Response: We have addressed and corrected many of the prior audit findings. We are hiring another auditor to assist with audit issues. We will continue to work with the school employers to ensure that necessary changes are made. School districts have the independent duty to comply with reporting statutes.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Purchase of Service

Neb. Rev. Stat. Section 79-921(2) R.S.Supp., 2006 states, "The retirement board shall reinstate to membership, with the same status as when such membership ceased, a school employee who has withdrawn his or her accumulated contributions under the following conditions: (a) If he or she again becomes an employee and if such employee chooses within three years after rejoining the system to repay, within five years after the date on which he or she rejoins the retirement system or prior to termination of employment, whichever is first, to the retirement board part or all of the amount he or she has withdrawn plus interest which would have accrued on that amount under the retirement system; or (b) If, more than three years after again becoming an employee and rejoining the system but prior to termination of employment, he or she chooses to repay part or all of the amount he or she has withdrawn, plus an amount equal to the actuarial assumed rate of return for the period repaid. Payment must be completed within five years after electing to repay or prior to termination, whichever is earlier."

Neb. Rev. Stat. Section 79-933.07 R.R.S. 2003 states, "The board shall adopt and promulgate rules and regulations for the purchase of service credit, which shall include, but not be limited to, the method for determining actuarial cost and interest requirements for payments other than one lump-sum payment"

Nebraska Administrative Code Title 303 Chapter 15-006.01(iv) states, "The finance interest rate used for installment payments shall be the actuarial interest rate assumption based on the expected long-term rate of return for each plan, recommended by the actuary and adopted by the Retirement Board."

Good internal control requires procedures to ensure the calculation of the cost for a member to purchase service is accurate and in accordance with statute.

We tested five purchase of service calculations and noted the following:

- Through March 2007 NPERS continued to rely on PIONEER to calculate purchase of service payments after we had expressed concerns with the accuracy of the calculations in prior audits. In April 2007 NPERS began calculating purchase of service payments using a spreadsheet based upon state statute. The use of the spreadsheet resulted in purchase of service payments being calculated in accordance with statute. Two purchase of service payment calculations performed prior to April 2007 were not in accordance with state statute. The incorrect calculations resulted in an overpayment of $98 by one member and an underpayment of $31 by another member.

- NPERS did not recalculate all purchase of service from repayment of a refund, as recommended in the prior year.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Purchase of Service</u> (Concluded)

A similar finding was noted in the past several audit reports.

Without adequate procedures to ensure purchase of service calculations performed by PIONEER are accurate, members may not pay the actual cost of the service purchased. If the calculated cost is too high, the member will pay too much into the system with no additional benefit.

> We recommend NPERS continue to use the current spreadsheet to calculate purchase of service payments. NPERS should maintain the spreadsheet with the appropriate data required by statute. We also recommend NPERS review prior purchase of service payments for refunded service in order to determine the effect of the prior miscalculations.

NPERS' Response: The board has approved a new purchase of service method called the Cube method. We plan to implement this method July 1, 2008. At the present time, we will continue to use the Excel spreadsheet for refunded purchase of service calculations until changes in the new computer system are made and tested. We agree that recalculation of past refunded service purchases is advisable, and it is currently on our project list. At this time, our limited staff resources have not allowed for the completion of this project.

5. <u>Benefit Paid to Estate</u>

Title 303 NAC 24-002.09 defines a contingent annuity option as "…a benefit payable monthly for the lifetime of the member. At the death of the member, the benefit continues to the surviving spouse at a specified rate of 50%, 66 2/3 %, or 100%."

Good internal control requires procedures to ensure payments are made to a member's beneficiary or estate as requested on the retirement application.

One of four ceased benefits tested was not appropriately resumed to the beneficiary based on the option selected. The member elected a 100% contingent annuity which requires 100% of the monthly benefit to be paid to the spouse for his or her lifetime after the member's death. The member died in November 2006 and NPERS processed the November and December 2006 payments to the member and then suspended the payment. The spouse died in March 2007 before the appropriate forms were returned to NPERS. A personal representative of the spouse contacted NPERS in April 2007 with an application to claim the amount owed to the spouse for January through March 2007. The amount owed to the spouse was $8,473. No further processing of the amount due to the spouse's estate occurred until October 2007 when we selected the member for testing.

5. <u>Benefit Paid to Estate</u> (Concluded)

Without adequate procedures to ensure payments are properly paid out after a member's death, there is an increased risk the beneficiary or estate would not receive amounts owed to them.

> We recommend NPERS implement procedures to ensure beneficiaries appropriately receive payments to which they are entitled.

NPERS' Response: We recognize that a prompt follow-up is necessary in payments to beneficiaries. In death situations, there are often instances where repeat contacts with the beneficiary are necessary, and it is important to assure that these contacts are timely. In late 2007, we assigned a lead worker the responsibility of overseeing the death payments. We are developing a system to track pending beneficiary payments. This issue has been resolved.

6. <u>Notarized Applications</u>

Good internal control requires retirement applications be notarized to ensure the individual requesting benefit payments is the actual member and to decrease the risk for fraudulent payments.

There were 5 of 13 retirement applications for Judges' benefit payments tested and 4 of 15 retirement applications for School Employees benefit payments tested that were not notarized. A similar finding was noted in the previous audit report.

When retirement applications are not notarized, there is an increased risk for fraudulent benefit payments.

> We recommend NPERS implement procedures to ensure all retirement applications are notarized prior to the issuance of benefit payments. NPERS should ensure all old forms are destroyed and are not used.

NPERS' Response: Although notarized applications are not required by statute, we agree that notarized applications should be used. We no longer accept old application forms. Members are required to complete a new application form that has been notarized. This issue has been resolved.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Verification of Salary Caps

Neb. Rev. Stat. Section 79-902(35)(e)(i) R.S.Supp., 2006 states, “In the determination of compensation for members on or after July 1, 2005, that part of a member’s compensation for the plan year which exceeds the member’s compensation with the same employer for the preceding plan year by more than seven percent of the compensation base during the sixty months preceding the member’s retirement shall be excluded unless (A) the member experienced a substantial change in employment position . . .”

Neb. Rev. Stat. Section 79-906(2) R.S.Supp., 2006 requires employers to provide information to the NPERS director whenever a member’s compensation has exceeded seven percent of the compensation base. Such information shall be provided by the employer in an accurate and verifiable form.

Good internal control requires procedures to ensure amounts in excess of seven percent of the compensation base are properly excluded from income, unless the substantial change in employment has been verified.

NPERS did not require school districts to provide information to support substantial changes in employment for members. School districts only reported that members experienced a substantial change in employment and did not submit additional information to NPERS; therefore, NPERS could not verify that each member experienced a substantial change in employment as indicated by the school.

We tested 15 new retirees in the School Plan. Three of the fifteen tested exceeded seven percent of the compensation base. One of these three School Plan retirees had a salary increase of 13.76 percent between fiscal year 2005 and fiscal year 2006. The school reported to NPERS annually, as required by statute, that this member had a substantial change in employment; however, NPERS did not verify the substantial change in employment of the member. Therefore, the full salary amount, including the amount above seven percent, or $508, was included in the member’s compensation which was used to calculate the retirement benefit. Although the number sampled was small, this is a systemic issue that could affect any member whose salary exceeds seven percent of the compensation base.

Without procedures to ensure schools submit adequate documentation to support substantial changes in employment, there is an increased risk amounts in excess of seven percent of the compensation base are used to calculate members’ retirement benefits. This could adversely affect the funded status of the Plans.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Verification of Salary Caps (Concluded)

We recommend NPERS require school districts to provide additional information when members experience a substantial change in employment. We also recommend NPERS review the additional information provided to ensure the member actually experienced a substantial change in employment, prior to the processing of benefit payments.

NPERS' Response: The role of NPERS in "testing" or "verifying" employer-submitted material has been an issue previously. As a result of this issue, language was added to section 79-906 in 2005 which provides that "the director shall, from time to time, carry out testing procedures pursuant to section 84-1512 to verify the accuracy of such information." "Such information" refers to the school employer reports with respect to name, current address, age, contributions, and any other facts as may be necessary in the administration of the School Employees Retirement Act.

NPERS works to educate the school reporting agents, to support their activities by assisting them in resolving problems, and, from time to time, to "test" their work to evaluate whether such reports are accurate. The statutes do not require all information submitted to NPERS be independently verified, neither does NPERS have sufficient staff resources to perform to this standard. The reporting agents are charged under the statutes to provide "accurate and verifiable" information. NPERS will continue to randomly test member data submitted to our office.

APA's Response: The APA found no documentation to indicate NPERS reviewed information submitted by school districts to verify there was a bonafide change in employment status for salaries in excess of the seven percent salary cap. Therefore, we recommend, on a test basis, NPERS document their verification of information submitted by the school districts for salaries reported that exceeded the seven percent salary cap from one year to the next.

8. Information Technology

Good internal control requires general and application controls of computer systems supporting financial data to be in place and working effectively to reduce the risk of financial data being misstated due to error or fraudulent acts. Good internal control also requires procedures to ensure Information Technology (IT) systems are used to their full capacity to reduce the use of overrides in the system. Finally, good internal control requires changes made to members' addresses be reviewed and documented by an individual who did not make the initial change.

8. Information Technology (Continued)

We noted the following instances where internal controls over information technology were not in place or were not operating as intended by management:

A. Two of fifteen changes to the PIONEER application sampled were not tested in a test environment and were moved directly into production. Without sufficient evaluation, planning, and testing of modifications, there is an increased risk unexpected disruptions could negatively impact the completeness and accuracy of data or could result in implementation of systems that are unable to meet NPERS' information processing needs. Additionally, changes could be implemented that do not function according to management's intentions.

B. One of nine accounts tested with domain administrator access did not require administrator privileges. Inappropriate administrator access may lead to financial loss and operational damage through unintentional or deliberate unauthorized access, alteration, and use of information resources. During calendar year 2007, NPERS removed the account with inappropriate domain administrator privileges, upon our recommendation.

C. Three accounts with domain administrator access on the database server had a password that was shared among the IT staff. The sharing of passwords for administrator accounts decreases user accountability for unintentional or deliberate unauthorized changes to system security.

D. NPERS did not monitor system logs to confirm they were operating according to management's expectations. Several of the logs were turned on, but no review was being performed, including: network performance, database performance reports, system events, and security logs. Without adequate monitoring of system logs, unauthorized users could access sensitive financial or member data on the network and financial applications without being detected. Performance of the operating system and network could impact operations and affect financial applications. Failure to review data logs could result in unauthorized, incomplete, or inaccurate processing to go undetected. During calendar year 2007, NPERS began reviewing the system logs to ensure they were operating properly, upon our recommendation.

E. A comprehensive, written PIONEER policy and procedures manual has not been prepared to describe specific policies or procedures related to processing transactions in the system. Without a written manual for processing transactions, NPERS staff may not be handling transactions consistently. Additionally, written manuals can aid in the training of new employees. A similar finding was noted in the previous audit report.

8. Information Technology (Continued)

F. PIONEER did not correctly calculate the benefit amount for judges who have elected the revised joint and survivor annuity option and did not correctly calculate Qualified Domestic Relations Order (QDRO) benefit payments. NPERS management implemented a manual override of PIONEER to force PIONEER to match the manual calculation. There is an increased risk for errors or fraud when overrides occur. A similar finding was noted in the previous audit report.

G. Employees who work on benefits and refunds can make address changes for members with no subsequent review of the address change made to the member's account. Although NPERS evaluated the cost related to the functionality within PIONEER to be $19,600 and decided it was a better business decision to not spend these funds on PIONEER, there is still a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected. A similar finding was noted in the previous audit report.

We recommend NPERS:

- Develop and implement a standardized change management process for application and system changes. The process should include documented change requests, approvals, testing procedures, and approval to implement the change to production.
- Create policies outlining specific roles and responsibilities of users who need administrator privileges. Any inappropriate access should be revoked. Periodic reviews of user access should occur on a continuous basis to ensure controls and rules are consistently applied, and to provide a secure environment on a day-to-day basis.
- Eliminate the practice of shared passwords.
- Implement procedures to periodically review performance reports, security logs, and completed processes.
- Ensure policies and procedures relating to processing of transactions in PIONEER are established.
- Ensure the issues noted are appropriately addressed as they work to strengthen and update the information systems.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Information Technology</u> (Continued)

NPERS' Response:

A. All changes that are not categorized as a very minor change, e.g. report heading change, are tested in UAT before going into production. In addition, e-mail approvals from the business staff are used to communicate when a deployment to UAT and Production can be made. This decision is not made by the IT Department. Deployment folders containing supporting documentation for each deployment to production are kept in a file cabinet in the IT department and on the NPERS Intranet, except for testing documents. Therefore, this item has been resolved.

B. As stated in the Audit Comments and Recommendations, "After the calendar year end, NPERS removed the account with inappropriate domain administrator privileges …". Consequently, this issue has been resolved.

C. One of the 3 shared administrator accounts is no longer needed and has been removed. The other 2 shared administrator accounts are necessary for proper administration of the production environment and will need to remain active. We have implemented a quarterly review of access accounts on all of the production servers as well as quarterly password changes for the shared accounts. Consequently, this issue has been resolved.

D. System events as well as security logs are reviewed on a daily basis by the IT staff. NPERS has now established a quarterly review of these logs, by the IT Manager. As stated in the Audit Comments and Recommendations, "After the calendar year end, NPERS began reviewing the system logs to ensure they were operating properly …". This includes network, database and servers. Therefore, this item is resolved.

E. There are two sets of documentation that describes PIONEER. The first is entitled "GAP" documentation, which provides a higher level business and technical perspective of the system. This includes:

- *High level diagrams of each function*
- *Brief description of the function*
- *Screen/report example*
- *Tab uses*
- *User instructions*
- *Security requirements*
- *Display rules*
- *Etc.*

COMMENTS AND RECOMMENDATIONS
(Continued)

8. **Information Technology** (Concluded)

The second is entitled "User Training", which provides a more detailed business perspective on how to use the PIONEER system. This includes:

- *Description of the function*
- *Detailed step by step instructions for the user to follow, including prints of the actual screens/reports.*
- *This documentation has been placed on the NPERS Intranet, so all staff has access to this documentation.*

These two sets of documentation provide the specifics related to processing transactions in the system, as well as a training tool.

F. The PIONEER replacement system (NPRIS) will have QDRO routines that will correctly calculate benefit payments. Safeguards will be built into NPRIS to prevent errors or fraud.

G. Manual changing of addresses will be corrected in the new system (NPRIS). An audit function for address changes will be included.

9. **Minimum Accrual Rate**

Neb. Rev. Stat. Sections 24-710.10 R.S.Supp., 2006, 79-947.04 R.R.S. 2003, and 81-2027.06 R.R.S. 1999 state that minimum accrual rates were set at thirty-five dollars for the Judges Plan, eighteen dollars for the School Employees Plan, and thirty dollars for the State Patrol Plan until adjusted pursuant to these sections. Commencing on June 30, 1999, the retirement board will annually adjust the minimum accrual rate to reflect the cumulative change in the National Consumer Price Index from the last adjustment of the minimum accrual rate.

NPERS did not follow up on the audit finding related to the minimum accrual rate used in calculating the annual COLAs that has been noted in the past several audit reports. NPERS continued to calculate the minimum accrual rates incorrectly. As a result, the minimum accrual rate was still incorrect for the 2007 benefit calculations.

In July 1999, NPERS used the original minimum accrual rate instead of adjusting the original rate as required by statute, which affected the minimum accrual rate used for the COLA calculations for every year after 1999. Then the same rate was used in fiscal years 2003 and 2004, leaving a two year variance. NPERS did adjust the minimum accrual rate in PIONEER for the 2006 benefit adjustments, but the rate was still one year off in their system. They also compiled a list of members who were eligible to receive the adjustment under this section of

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Minimum Accrual Rate (Concluded)

statute but did not get the adjustment because it was either not the largest adjustment available under the statutes, or because the minimum accrual rate was not higher than the monthly accrual rate. However, NPERS did not determine if using the correct minimum accrual rate would affect whether or not these members should have received the adjustment under this section of statutes as was recommended in the previous audit report.

When the incorrect minimum accrual rate is used in a member's benefit adjustment calculation, there is an increased risk the member's benefit may not be adjusted by the correct amount and future adjustments will be inaccurate.

> We recommend NPERS ensure the minimum accrual rate is correct before the July 2008 benefit adjustments are issued. In addition, we also recommend NPERS analyze and determine the effect of using the incorrect minimum accrual rates for those eligible members and determine if any adjustments need to be made since the first benefit adjustment given in 2000.

NPERS' Response: We will work to ensure the minimum accrual rate used is correct according to the statutes. We will determine if any adjustments need to be made subsequent to the first benefit adjustments that were given in 2000.

10. Member Interest

Good internal control requires procedures to ensure the allocation of interest to individual member accounts is fair and accurate.

In December 2003, the Board approved a method to post interest to member accounts based on the balance at the beginning of the month and interest rate in effect at the time of the interest posting until such time as the cost of converting to an actual basis is known. In January 2004, two estimates were brought before the Board, one to make the change to calculate interest based on the average daily balance and the second to change back to calculating interest based on the end of the month balance. Neither change was implemented, but the project manager at the time, suggested revisiting the policy in a year to determine whether NPERS staff could make the change when they took over the system. The policy has not been revisited by the Board. A similar finding was noted in the previous audit report.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. **Member Interest** (Concluded)

Members who take a refund prior to the interest posting may miss interest on their last contribution since interest is posted based on the balance at the beginning of the month. If a contribution posted and the member received a refund in the same month, there would be no interest on the final contribution.

> We recommend NPERS revisit the alternative methods of posting interest to members' accounts, since the alternatives would be more accurate for each member.

NPERS' Response: NPERS has included program development for the "average daily balance" method of posting interest in the PIONEER conversion. When the programming is completed and tested, the Retirement Board will consider changing the method.

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

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) – School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2007, 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*, 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans, are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the governmental activities of the State of Nebraska as of June 30, 2007, 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 financial positions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of June 30, 2007, and the results of each Plan's operations 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 January 22, 2008, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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.

The "Schedules of Funding Progress," "Schedules of Contributions From Employers and Other Contributing Entities," and "Notes to Required Supplementary Information" are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. The "Schedules of Contributions From Employers and Other Contributing Entities" has been subjected to the auditing procedures applied in the audit of the Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets and, in our opinion, are fairly stated in all material respects in relation to the financial statements referred to above, taken as a whole. We have applied certain limited procedures to the "Schedules of Funding Progress" and the "Notes to Required Supplementary Information," which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information; however, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, taken as a whole. The accompanying supplementary schedule of Service Efforts and Accomplishments and related graphs are presented for purposes of additional analysis and are not a required part of the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

January 22, 2008 Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
June 30, 2007

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury (Note 1)	$ 4,954,480	$ 161,522	$ 867,815
Deposits with Vendors	9,091	94	94
Receivables:			
Contributions	35,480,613	360,746	1,127,959
Interest and Dividend Income	10,657,528	184,928	426,975
Other Investment Receivables (Note 11)	127,137,525	2,196,865	5,052,549
Total Receivables	173,275,666	2,742,539	6,607,483
Investments, at fair value (Note 3):			
U.S. Treasury Bills	5,184,803	89,590	206,047
U.S. Treasury Notes and Bonds	19,247,811	332,590	764,920
Government Agency Securities	39,433,531	681,387	1,567,113
Corporate Bonds	336,178,239	5,808,953	13,359,933
International Bonds	43,823,647	757,246	1,741,579
Asset Backed Securities	95,205,956	1,645,100	3,783,544
Short Term Investments	127,482,945	2,202,884	5,066,455
Commingled Funds	4,580,650,995	79,150,825	182,037,924
Mortgages	725,188,984	12,531,097	28,820,448
Municipal Bonds	1,967,871	34,004	78,205
Private Equity Funds	17,406,278	300,770	691,736
Equity Securities	971,042,001	16,779,007	38,589,814
Private Real Estate Funds	247,455,286	4,275,875	9,834,027
Total Investments	7,210,268,347	124,589,328	286,541,745
Invested Securities Lending Collateral (Note 3)	341,294,627	5,897,360	13,563,260
Capital Assets (Note 10):			
Equipment	7,483,576	2,036,889	1,992,481
Less: Accumulated Depreciation	(4,865,588)	(1,317,759)	(1,290,566)
Total Capital Assets	2,617,988	719,130	701,915
TOTAL ASSETS	7,732,420,199	134,109,973	308,282,312
LIABILITIES			
Compensated Absences (Note 4)	174,246	2,616	3,638
Accounts Payable and Accrued Liabilities	2,741,986	49,432	107,576
Other Accounts Payable	2,120,756	64,220	143,464
Obligations under Securities Lending (Note 3)	341,294,627	5,897,360	13,563,260
Capital Lease Obligations (Note 7)	3,007,944	741,234	742,671
Other Investment Payables (Note 11)	354,771,516	6,130,233	14,098,841
Contributions for Omaha Public Schools (Note 5)	2,714,614	-	-
TOTAL LIABILITIES	706,825,689	12,885,095	28,659,450
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 42.)	$ 7,025,594,510	$ 121,224,878	$ 279,622,862

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Employee	$ 109,171,271	$ 1,098,347	$ 3,455,696
Employer	107,478,977	-	3,950,715
Court Fees	-	3,143,599	-
State	17,934,485	72,244	1,127,959
Total Contributions	234,584,733	4,314,190	8,534,370
Investment Income:			
Net appreciation (depreciation) in fair value of investments	940,440,491	16,303,510	37,706,586
Interest & Dividends	135,611,924	2,355,875	5,445,897
Securities Lending Income	12,704,112	219,519	504,869
Total Investment Income	1,088,756,527	18,878,904	43,657,352
Investment Expenses	(11,828,905)	(204,738)	(472,768)
Securities Lending Expenses	(12,244,492)	(211,577)	(486,604)
Net Investment Income	1,064,683,130	18,462,589	42,697,980
Other Additions	19,085	-	-
Total Additions	1,299,286,948	22,776,779	51,232,350
DEDUCTIONS:			
Benefits	234,129,493	5,068,066	11,969,795
Refunds of Contributions	11,218,324	-	210,627
Administrative Expense	3,833,125	419,300	433,960
Total Deductions	249,180,942	5,487,366	12,614,382
Net Increase	1,050,106,006	17,289,413	38,617,968
Net assets held in trust for pension benefits			
Beginning of year	5,975,488,504	103,935,465	241,004,894
End of year	$ 7,025,594,510	$ 121,224,878	$ 279,622,862

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2007

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans have been prepared in conformance with generally accepted accounting principles (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 State Employees and County Employees Retirement Plans for the fiscal year ended December 31, 2006, and the Deferred Compensation Plan for fiscal year ended December 31, 2005.

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

C. Measurement Focus, Basis of Accounting

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The School Employees, Judges, and State Patrol Retirement Plans' financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are 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 on the Nebraska Information System (NIS). Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. The cash funds of the School Employees, Judges, and State Patrol Retirement Plans were designated for investment during fiscal year 2007.

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. The State Treasurer is the custodian of all funds; however, investments are under the responsibility of the Nebraska Investment Council.

Although the assets of the plans are commingled for investment purposes, each plan's assets 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 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 using the straight-line method.

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2007, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	14,408	159	341
Terminated plan members entitled to but not yet receiving benefits	18,147	10	15
Active plan members	37,152	154	484
Total	69,707	323	840

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

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. The Legislature in 1945 enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2007, there were 475 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plan (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan. The benefits are based on both service and salary.

Normal retirement is at age 65. The monthly benefit is equal to the greater of: 1) The sum of a savings annuity which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to $3.50 per year of service, or

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

2) The average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor set by statute, and an actuarial factor based on age. The calculation varies with early retirement. Employees' benefits are vested after five years of plan participation, or when termination occurs at age 65 or later.

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 0.7 percent of the compensation of all members. The employees' contribution was equal to 7.98 percent of their compensation from July 1, 2006, to August 31, 2006, and was equal to 7.83 percent from September 1, 2006, to June 30, 2007. The school districts' (employer) contribution is 101 percent of the employees' contribution.

Judges Retirement

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

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

Contributions. The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A five dollar fee for each case is collected from District and County courts, Juvenile courts, Workers' Compensation Court, Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Each member who had not retired prior to July 1, 2004, and who elected to make contributions and benefits within 90 days of July 1, 2004, contributes 8 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit has been earned, such member contributes 4 percent of their monthly salary for the remainder of his or her active service. All other members contribute 6 percent of their monthly salary until the maximum benefit had been earned. After the maximum benefit had been earned, such member makes no further contributions to

2. Plan Descriptions and Contribution Information (Concluded)

the fund, except that any time the maximum benefit is changed, a member who has previously earned the maximum benefit will contribute 6 percent of their salary until the maximum benefit as changed has been earned.

State Patrol Retirement

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

Contributions. Members are required to contribute 13 percent of their annual pay from July 1, 2006, to June 30, 2007, plus, for a State Patrol officer employed on or before January 4, 1979, 13 percent of pay received at termination for unused sick leave and vacation leave. The State Patrol's (employer) contribution is 15 percent of the employees' annual pay. The State's contribution is based on an annual actuarial valuation.

3. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statements 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. Section 72-1239.01 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.

The investment amounts presented in the Statements of Plan Net Assets for the School Employees, Judges, and State Patrol Retirement Plans do not agree to some of the investment risk disclosures noted below. The investment risk disclosures presented below may include both the Defined Benefit Plans and the Cash Balance Benefit portion of the State and County Retirement Plans, as these funds are commingled for investment purposes.

3. Investments (Continued)

NPERS' investments for the School Employees, Judges, and State Patrol Retirement Plans at June 30, 2007, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

School Employees, Judges, and Patrol Retirement Plan Investments at June 30, 2007

	Fair Value	Effective Duration
Debt Securities		
U.S. Treasury Notes and Bonds	$ 20,345,321	13.16
U.S. Treasury Bills	5,480,441	0.19
Government Agency Securities	41,682,031	4.58
Corporate Bonds	355,347,124	4.76
International Bonds	46,322,472	7.02
Asset Backed Securities	100,634,600	2.01
Short Term Investments	134,752,285	0.08
Commingled Funds	622,264,659	4.72
Mortgages	766,540,528	6.03
Municipal Bonds	2,080,079	1.83
	2,095,449,540	
Other Investments		
Private Equity Securities	18,398,784	
Equity Securities	1,026,410,823	
Commingled Funds	4,219,575,085	
Private Real Estate Funds Trust	261,565,188	
Total Investments	7,621,399,420	
Invested Securities Lending Collateral	360,755,247	
Total	$ 7,982,154,667	

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.

3. Investments (Continued)

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. NPERS' rated debt investments as of June 30, 2007, 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.

Defined Benefit/Cash Balance Benefit Investments at June 30, 2007

		Quality Ratings							
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Unrated**
Asset Backed Securities	108,596,913	98,054,870	-	90,292	148,622	-	-	-	10,303,129
Mortgages	827,150,755	558,310,613	1,208,280	-	-	-	647,396	-	266,984,466
International Bonds	49,987,553	-	-	4,098,498	7,494,420	24,896,979	3,607,101	-	9,890,555
Corporate Bonds	383,462,552	51,978,435	76,589,546	37,572,277	45,747,117	60,494,887	67,369,867	12,950,660	30,759,763
Government Agency Securities	44,979,956	42,114,251	-	-	558,003	1,831,602	476,100	-	-
Municipal Bonds	2,244,657	1,311,416	933,241	-	-	-	-	-	-
Short Term Investments	151,019,966	-	-	-	-	-	-	-	151,019,966
Commingled Funds	671,498,876	-	-	-	-	-	-	-	671,498,876

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 5 percent of the total account.

At June 30, 2007, NPERS had no debt security investments with more than 5 percent of total investments.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

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

Defined Benefit/Cash Balance Benefit Foreign Currency at June 30, 2007

	Short Term Investments	Equity Securities	International Bonds	Corporate Bonds
Argentine Peso	$ 14,708	$ -	$ 42,710	$ -
Australian Dollar	267,436	7,863,720	-	-
Brazilian Real	22,487	599,789	1,422,936	-
Canadian Dollar	69,463	708,737	-	476,701
Danish Krone	525	369,297	-	-
Euro Currency	393,645	108,406,685	287,127	572,053
Hong Kong Dollar	202	-	-	-
Hungarian Forint	3,367	-	-	-
Iceland Krona	-	-	-	1,921,619
Indonesian Rupiah	11,323	1,005,551	-	-
Israeli Shekel	16,408	1,492,473	-	-
Japanese Yen	6,363,050	34,119,414	1,548,409	4,933,549
Malaysian Ringgit	-	-	-	1,808,472
Mexican Peso	3,912,057	6,694,057	7,753,653	565,672
New Zealand Dollar	788	139,174	-	574,369
Norwegian Krone	858	294,183	-	-
Philippine Peso	1,075	119,460	-	-
Polish Zloty	40,093	-	-	-
Pound Sterling	702,437	37,242,379	-	-
Singapore Dollar	593,331	2,449,249	-	1,929,037
South Korean Won	383	17,142,591	-	934,625
Swedish Krona	6,391	10,207,993	-	-
Swiss Franc	6,912	25,187,350	-	-
Thailand Baht	(168)	2,044,521	-	-
Total	$ 12,426,771	$ 256,086,623	$ 11,054,835	$ 13,716,097

3. Investments (Concluded)

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 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 as collateral for securities of the type of loan at year end. 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 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 of 43 and 68 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the State by the contract with the custodian.

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.

4. Compensated Absences

All permanent employees working for the retirement systems earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and board members are not eligible for paid leave.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Compensated Absences (Concluded)

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 for employees under the Nebraska Classified System Personnel Rules and Regulations. In general, there is no maximum limit on the accumulation of sick days for employees under a labor contract. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave. Employees under the labor contract can be paid a maximum of 60 days.

All Plans recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave becomes vested.

The liability for the vested portion of compensated absences for each Plan at June 30, 2007, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 94,458	$ 1,418	$ 1,972
Sick Leave	79,788	1,198	1,666
Compensatory Leave	-	-	-
	$ 174,246	$ 2,616	$ 3,638

5. Contribution for Omaha Public Schools

Neb. Rev. Stat. Section 79-916, R.S.Supp., 2006 required an annual payment to be made to Omaha Public Schools as a result of that school system having a separate retirement system. The contribution amount represents the July payment to Omaha Public Schools. This amount is included in State Contributions Additions and recorded as benefits when payment is made.

6. Historical Trend Information

Historical trend information designed to provide information about NPERS' progress made in accumulating sufficient assets to pay benefits when due is presented as required supplementary information following these Notes to Financial Statements.

7. 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 Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State with the exception of the health and life insurance programs which are maintained by DAS Personnel Division. The State generally self-insures for general liability 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 of accidents involving vehicular pursuit which have a $1,000,000 self-insured retention per accident. Insurance is also purchased for medical payments, 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. Health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $21 million for each loss, and a $25,000 self-insured retention per incident was in effect from July 1, 2006, through October 18, 2006. Starting October 19, 2006, the limit for each loss was increased to $31 million.

D. Real and personal property on a blanket basis for losses up to $250,000,000, 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 coverages, sublimits, and self insurance. Details of these coverages are available from the DAS Risk Management Division. State agencies have the option to purchase building contents and inland marine coverage.

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

7. Contingencies and Capital Lease Commitments (Continued)

Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Public Employees Retirement Systems' financial statements.

Capital Lease Commitment. The State of Nebraska, through the DAS Accounting Division, has a Master Lease Agreement to be used by various agencies to purchase equipment. In December 2000, the Board first used this financing arrangement to finance the acquisition and installation of certain information technology equipment.

The second Master Lease Agreement, dated November 1, 2001, was for $2,166,847, including interest costs of $241,847, a rate of 3.245%. The third Master Lease Agreement, dated July 11, 2002, was for $6,029,861, including interest costs of $644,861, a rate of 3.129%. The first Master Lease Agreement was integrated into the third Master Lease Agreement. As a result, the first Master Lease Agreement no longer exists. The fourth Master Lease Agreement, dated February 26, 2003, was for $5,915,227, including interest costs of $525,227, a rate of 2.757%. The fifth Master Lease Agreement, dated February 12, 2004, was for $4,062,231, including interest costs of $326,708, a rate of 2.530%. The lease agreements are made with NPERS, not any of the individual plans. The minimum annual lease payments and the present value of future minimum payments for all capital leases as of June 30, 2007, are as follows:

Fiscal Year	School Employees	Judges	State Patrol
2008	$ 1,183,006	$ 311,461	$ 307,041
2009	1,048,338	272,046	269,120
2010	673,106	162,221	163,455
2011	220,074	29,627	35,883
Total Minimum Payments	3,124,524	775,355	775,499
Less: Interest and Executory costs	116,580	34,121	32,828
Present value of net minimum payments	$ 3,007,944	$ 741,234	$ 742,671

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Capital Lease Commitments (Concluded)

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

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
School Employees:					
Compensated Absences	$ 196,756	$ -	$ 22,510	$ 174,246	$ 12,197
Capital Lease Obligations	4,073,117	-	1,065,173	3,007,944	1,038,002
Totals	$ 4,269,873	$ -	$ 1,087,683	$ 3,182,190	$ 1,050,199
Judges:					
Compensated Absences	$ 2,741	$ -	$ 125	$ 2,616	$ 183
Capital Lease Obligations	1,052,992	-	311,758	741,234	303,805
Totals	$ 1,055,733	$ -	$ 311,883	$ 743,850	$ 303,988
State Patrol:					
Compensated Absences	$ 2,879	$ 759	$ -	$ 3,638	$ 255
Capital Lease Obligations	1,042,620	-	299,949	742,671	292,298
Totals	$ 1,045,499	$ 759	$ 299,949	$ 746,309	$ 292,553

9. School Employee Contributions

Employee contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling $2,756,442. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. Sections 79-921, 79-933.05, 79-933.06, and 79-933.08.

NOTES TO FINANCIAL STATEMENTS
(Continued)

10. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	$ 7,483,576	$ -	$ -	$ 7,483,576
Less: Accumulated Depreciation	3,796,506	1,069,082	-	4,865,588
Total Capital Assets, Net	$ 3,687,070	$ (1,069,082)	$ -	$ 2,617,988
Judges:				
Equipment	$ 2,036,889	$ -	$ -	$ 2,036,889
Less: Accumulated Depreciation	1,026,775	290,984	-	1,317,759
Total Capital Assets, Net	$ 1,010,114	$ (290,984)	$ -	$ 719,130
State Patrol:				
Equipment	$ 1,992,481	$ -	$ -	$ 1,992,481
Less: Accumulated Depreciation	1,005,926	284,640	-	1,290,566
Total Capital Assets, Net	$ 986,555	$ (284,640)	$ -	$ 701,915

11. 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, payable for foreign currency purchased, unrealized appreciation/depreciation on investments payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset has been recorded as of June 30, 2007, but the security has not settled.

12. Fees on Investments

There are several fees that are charged against all investments. Investment income is recorded net of these fees on the financial statements. The following schedule shows the external fees charged against investments for the fiscal year ended June 30, 2007. These fees include both the Defined Benefit Plans and Cash Balance Benefit option managed by the Nebraska Investment Council.

12. Fees on Investments (Concluded)

External Manager Fees	Defined Benefit Plans
Abbott Capital	$ 330,000
Acadian Asset Management, Inc.	1,063,373
Alliance Bernstein Institutional Investment Management	1,102,371
Ariel Capital Management, LLC.	698,897
Baillie Gifford	862,374
Barclays Global Investors	764,500
BlackRock Financial Management	1,061,058
Dimensional Fund Advisors, Inc	1,168,721
Goldman Sachs Asset Management	292,943
Grantham, Mayo, Van Otterloo & Co., LLC	3,065,465
Heitman	225,943
Loomis Sayles	302,116
MFS Global Equity	980,524
Pathway	901,329
PIMCO	1,662,298
Prudential	1,019,907
UBS Global Asset Management (Americas), Inc.	1,003,160
Total External Manager Fees	$ 16,504,979

See the Nebraska Investment Council attestation report for further information regarding other fees.

13. Subsequent Events

School Employee Contributions

Neb. Rev. Stat. Section 79-958(1) R.S.Supp., 2006 defines required contributions to the School Plan. Beginning on September 1, 2006, and ending August 31, 2007, every employee shall be required to deposit in the School Retirement Fund 7.83 percent of compensation. After August 31, 2007, every employee shall be required to deposit in the School Retirement Fund 7.28 percent of compensation.

On July 1, 2007, a one-time adjustment was made to the annuities of School and Class V School members so that the current annuity is not less than 85 percent of the original annuity amount adjusted by the CPI-W.

State Patrol Contributions

Neb. Rev. Stat. Section 81-2017(3) R.S.Supp., 2006 defines actuarially required contributions. The actuarially determined additional contribution requirement for the State Patrol Plan as of July 1, 2008, is $365,020.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

SCHEDULE 1

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SCHOOL EMPLOYEES						
6/30/2007	$6,396,336,863	$7,070,308,583	$673,971,720	90.5%	$1,325,616,322	50.8%
6/30/2006	5,739,048,994	6,584,275,406	845,226,412	87.2%	1,247,684,378	67.7%
6/30/2005	5,335,197,409	6,234,657,830	899,460,421	85.6%	1,214,227,197	74.1%
6/30/2004	5,118,011,165	5,868,266,970	750,255,805	87.2%	1,170,601,127	64.1%
6/30/2003	4,952,902,870	5,464,572,876	511,670,006	90.6%	1,138,776,241	44.9%
6/30/2002	4,799,789,893	5,055,867,993	256,078,100	94.9%	1,065,515,857	24.0%
JUDGES						
6/30/2007	$ 111,006,176	$ 103,704,250	$ (7,301,926)	107%	$ 17,003,921	(42.9%)
6/30/2006	100,565,893	101,438,239	872,346	99%	16,422,894	5.3%
6/30/2005	94,922,714	98,512,876	3,590,162	96%	16,285,137	22.0%
6/30/2004	92,810,699	95,671,391	2,860,692	97%	16,655,342	17.2%
6/30/2003	91,863,620	85,387,839	(6,475,781)	108%	16,402,342	(39.5%)
6/30/2002	92,596,279	81,191,724	(11,404,555)	114%	16,062,274	(71.0%)
STATE PATROL						
6/30/2007	$ 254,662,819	$ 265,846,597	$ 11,183,778	95.8%	$ 26,072,859	42.9%
6/30/2006	231,740,772	245,373,102	13,632,330	94.4%	$ 24,057,960	56.7%
6/30/2005	219,831,273	236,026,471	16,195,198	93.1%	22,882,413	70.8%
6/30/2004	216,422,556	222,161,512	5,738,956	97.4%	22,640,907	25.3%
6/30/2003	214,657,454	210,930,784	(3,726,670)	101.8%	21,929,399	(17.0%)
6/30/2002	214,527,994	197,615,091	(16,912,903)	108.6%	18,846,776	(89.7%)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

SCHEDULE 2

SCHOOL EMPLOYEES

Year Ended	Annual Required Contribution (1)		Percentage
June 30	State (2)	School	Contributed
2007	$ 15,314,413	$ 107,478,977	100%
2006	30,644,522	102,161,426	100%
2005	29,816,737	90,147,174	90%
2004	14,154,879	87,438,804	100%
2003	13,119,888	84,467,330	100%
2002	12,659,281	80,288,662	100%

JUDGES

Year Ended	Annual Required Contribution		Percentage
June 30	State	Court Fees	Contributed
2007	$ 64,354	$ 3,143,599	100%
2006	72,169	3,048,084	100%
2005	501,841	2,217,118	84%
2004	72,244	2,002,153	100%
2003	712,518	579,145	50%
2002	72,244	492,613	100%

STATE PATROL

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$ 5,078,674 (3)	100%
2006	5,083,180	100%
2005	3,868,904	82%
2004	3,018,366	96%
2003	2,652,857	100%
2002	2,428,025	100%

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

(1) Includes funding for the Excess Formula Annuity, the Service Annuity, and the supplemental funds. Includes contributions for plan year ended June 30 paid after end of plan year.

(2) Does not include contribution to Omaha Public Schools.

(3) Additional State funding is required for the State Patrol Plan in the amount of $365,020, as of July 1, 2008.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
UNAUDITED

The information presented in the required supplementary Schedules 1 and 2 was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	School Employees	Judges	State Patrol
Valuation Date	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining Amortization Period	29 Years	30 Years	29 Years
Mortality	1994 Group Annuity Mortality Table, projected to 2010 (65% of male rates for males, 50% of female rates for females)	1994 Group Annuity Mortality Table, projected to 2010 (65% of male rates for males, 50% of female rates for females)	1994 Group Annuity Mortality Table, projected to 2010 (65% of male rates for males, 50% of female rates for females)
Asset Valuation Method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial Assumptions:			
Investment Rate of Return (1)	8.0%	8.0%	8.0%
Projected Salary Increases (1)	Graded 7.46% to 4.5%	4.5%	Graded 9% to 4.5%
Cost-Of-Living Adjustments (COLA)	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 60% purchasing power of original benefit

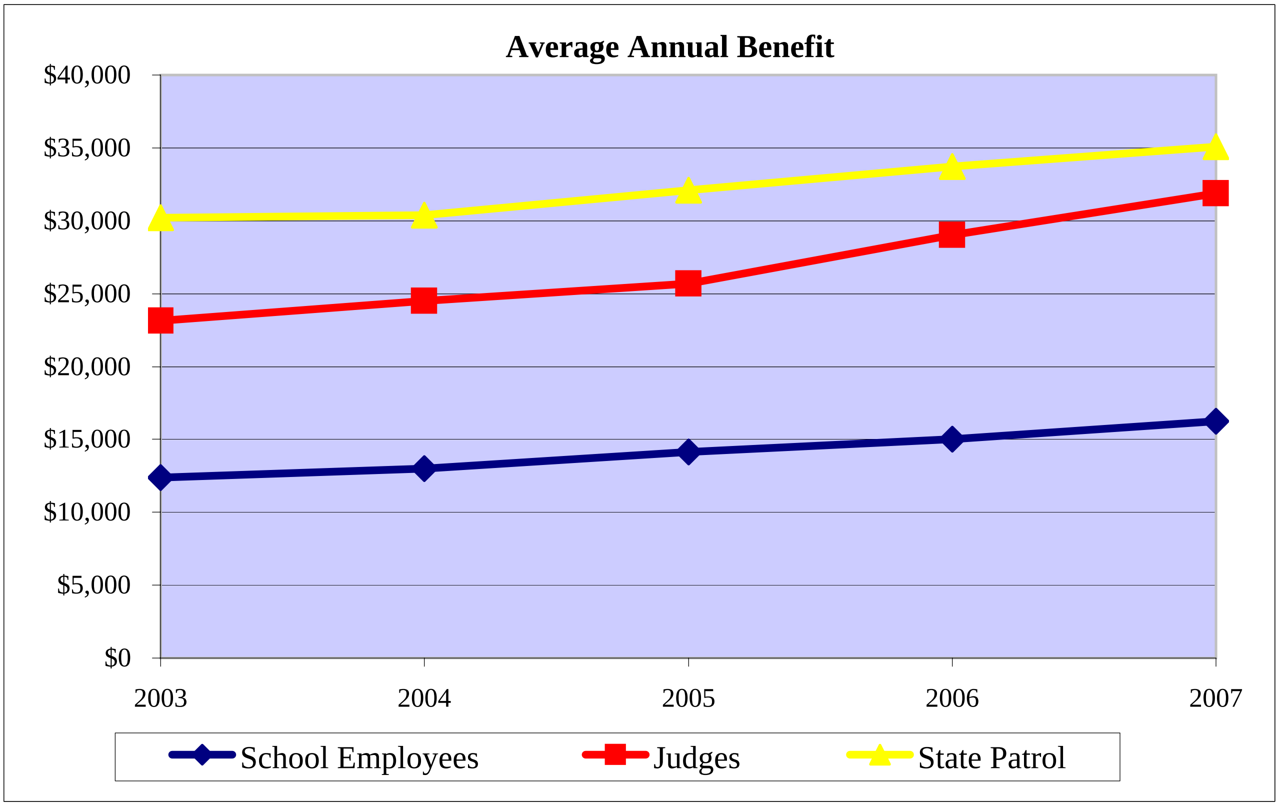
(1) Includes assumed inflation of 3.5% per year.

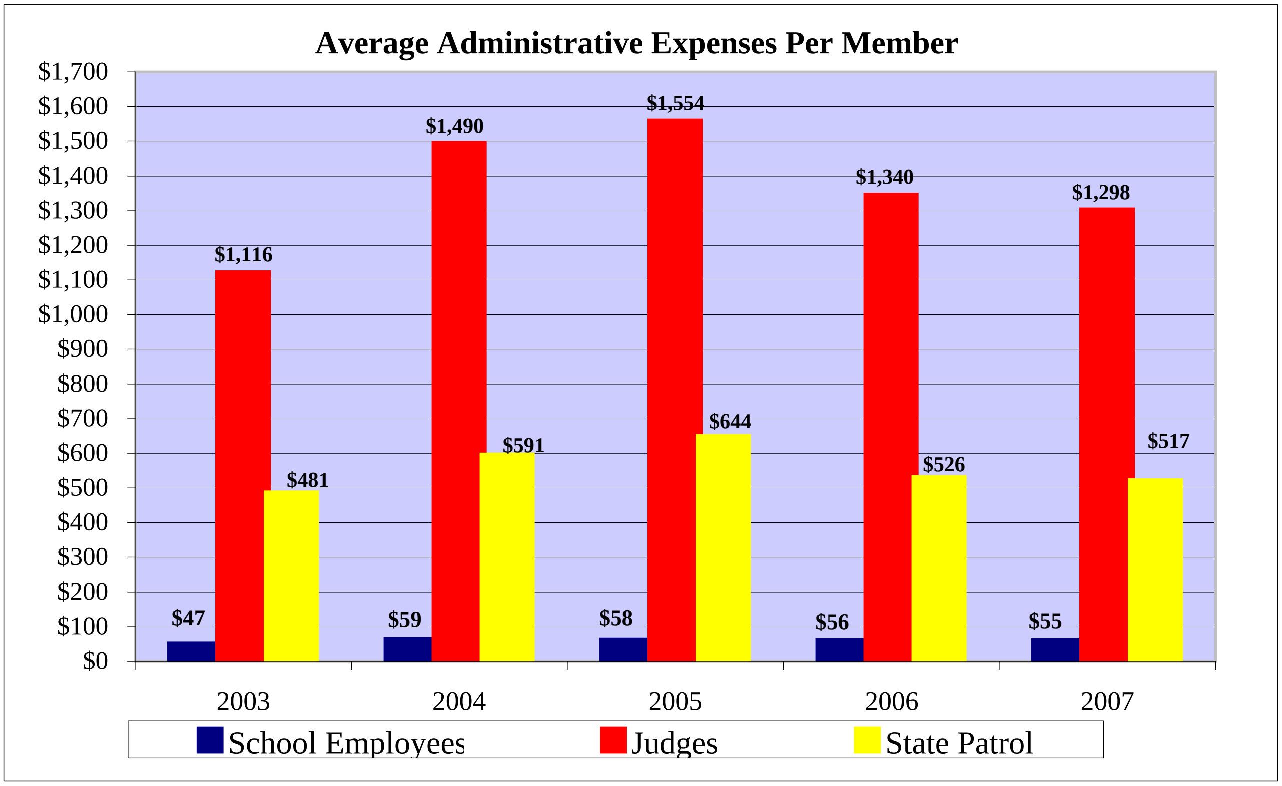
Changes in methods and assumptions:
Nebraska statutes were amended for each Plan such that the unfunded liability is reinitialized as of July 1, 2006, and amortized over a 30-year period.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
Fiscal Years Ended June 30, 2003 through 2007

	2003	2004	2005	2006	2007
SCHOOL EMPLOYEES					
Active Members	36,779	36,353	36,042	36,414	37,152
Inactive Members	14,531	15,245	16,924	17,755	18,147
Retirees	11,837	12,730	13,049	13,727	14,408
Total Benefits Paid (3)	$ 146,337,041	$ 165,347,079	$184,360,473	$ 206,222,696	$ 234,129,493
Average Annual Benefit (1)	$ 12,363	$ 12,989	$ 14,128	$ 15,023	$ 16,250
Average Monthly Benefit (4)	$ 1,030	$ 1,082	$ 1,177	$ 1,252	$ 1,354
Administrative Expenses	$ 2,995,158	$ 3,786,591	$ 3,829,772	$ 3,830,708	$ 3,833,125
Average Admin. Expense Per Member (2)	$ 47.43	$ 58.86	$ 58.01	$ 56.42	$ 54.99
JUDGES					
Active Members	162	163	159	154	154
Inactive Members	13	8	9	10	10
Retirees	160	158	164	162	159
Total Benefits Paid (3)	$ 3,700,867	$ 3,872,082	$ 4,214,817	$ 4,703,966	$ 5,068,066
Average Annual Benefit (1)	$ 23,130	$ 24,507	$ 25,700	$ 29,037	$ 31,875
Average Monthly Benefit (4)	$ 1,928	$ 2,042	$ 2,142	$ 2,420	$ 2,656
Administrative Expenses	$ 373,723	$ 490,116	$ 516,027	$ 436,753	$ 419,300
Average Admin. Expense Per Member (2)	$ 1,115.59	$ 1,489.71	$ 1,554.30	$ 1,339.73	$ 1,298.14
STATE PATROL					
Active Members	486	489	473	477	484
Inactive Members	13	15	10	14	15
Retirees	288	301	316	331	341
Total Benefits Paid (3)	$ 8,697,575	$ 9,146,637	$ 10,142,646	$ 11,168,135	$ 11,969,795
Average Annual Benefit (1)	$ 30,200	$ 30,387	$ 32,097	$ 33,741	$ 35,102
Average Monthly Benefit (4)	$ 2,517	$ 2,532	$ 2,675	$ 2,812	$ 2,925
Administrative Expenses	$ 378,697	$ 475,551	$ 514,411	$ 432,283	$ 433,960
Average Admin. Expense Per Member (2)	$ 481.19	$ 590.75	$ 643.82	$ 525.89	$ 516.62

Notes:
(1) Calculated: Total Benefits Paid/#Total Retirees=Avg Annual Benefit
(2) Calculated: Administrative Expenses/Total Members=Avg Admin Expense Per Member
(3) Total benefits paid does not include refunds
(4) Calculated: Average Annual Benefit/12


Average Annual Benefit
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
2003
2004
2005
2006
2007
School Employees
Judges
State Patrol


Average Administrative Expenses Per Member
$1,700
$1,600
$1,500
$1,400
$1,300
$1,200
$1,100
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
$47
$1,116
$481
$59
$1,490
$591
$58
$1,554
$644
$56
$1,340
$526
$55
$1,298
$517
2003
2004
2005
2006
2007
School Employees
Judges
State Patrol

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated January 22, 2008. The report was modified to disclose that the "Schedules of Funding Progress" and the "Notes to Required Supplementary Information" in the Required Supplementary Information was unaudited and to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol 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

In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting 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 – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Benefit Adjustments), Comment Number 2 (School District Testing), Comment Number 3 (Resolution of Prior Audit Findings - School District Testing), Comment Number 6 (Notarized Applications), and Comment Number 8 (Information Technology).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

<u>Compliance and Other Matters</u>

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

We also noted additional items that we have reported to management of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans in the Comments Section of the report as Comment Number 4 (Purchase of Service), Comment Number 5 (Benefit Paid to Estate), Comment Number 7 (Verification of Salary Caps), Comment Number 9 (Minimum Accrual Rate), and Comment Number 10 (Member Interest).

The Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' response and, accordingly, we express no opinion on it. Where no response is indicated, NPERS declined to respond.

This report is intended for the information and use of management, the Board, others within NPERS, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

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Pat Reding, CPA

January 22, 2008 Assistant Deputy Auditor