

**Omaha School Employees'
Retirement System**

**Financial Statements
August 31, 2011**

Together with Independent Auditor's Report

Omaha School Employees' Retirement System

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Independent Auditor's Report

To the Board of Education
Omaha School Employees' Retirement System:

We have audited the accompanying Statement of Fiduciary Net Assets of the Omaha School Employees' Retirement System (OSERS), a fiduciary fund of Douglas County School District #0001 (District), as of August 31, 2011, and the related Statement of Changes in Fiduciary Net Assets for the year then ended. These financial statements are the responsibility of the District's 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 the 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 present only the activity of OSERS and do not purport to, and do not, present fairly the financial position of the District as of August 31, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSERS as of August 31, 2011, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include investments valued at \$292,449,000 (28% of net assets) as of August 31, 2011, whose fair values have been estimated by management in the absence of readily determinable values. A description of the methods used by management is included in Note 1. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of OSERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purposes of forming an opinion on the financial statements taken as a whole. The accompanying schedules of funding progress and employer contributions are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, 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.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 10, 2011.

Omaha School Employees' Retirement System

Management's Discussion and Analysis

Overview

The following overview is a discussion and analysis of the financial activities of the School Employees' Retirement System of Douglas County School District 0001, more commonly known as the Omaha School Employees' Retirement System (OSERS), for the fiscal year ended August 31, 2011. Its purpose is to provide explanation and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights

Net assets in the plan, which represent funds available to pay current and future pension benefits, increased by \$82 million during the fiscal year to \$1,033 million. This 8% increase in net assets was due to employee and employer contributions and a continued recovery in the market value of the investments held by the Retirement System.

The plan experienced total additions of over \$168 million. This amount was greater than the previous fiscal year due to an increase in the investment income and appreciation as a result of the economic recovery during the year.

Total retirement benefits paid were higher than last year due to increased numbers of retirees who are receiving greater retirement benefits. The difficult economy prompted greater than normal member withdrawals. These were the major reasons that deductions from the plan increased to \$86.8 million.

Overview of the Financial Statements

The discussion and analysis below is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the financial statements, which are comprised of the following:

The Statement of Net Assets presents information about assets and liabilities, with the difference between the two reported as net assets held in trust for pension benefits. The level of net assets reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the financial position of OSERS is improving or deteriorating.

The Statement of Changes in Fiduciary Net Assets presents the results of fund operations during the year and discloses the additions and deductions from plan net assets. It supports the net change that has occurred to the prior year's net asset value on the statement of plan net assets.

The Notes to the Financial Statements provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes provide important and detailed information about OSERS, the pension trust fund, and the statements themselves.

The Supplementary Information consists of data on the funded status of the plan and the status of contributions from the employer and the State of Nebraska.

Omaha School Employees' Retirement System

Management's Discussion and Analysis

Financial Analysis

The following table shows condensed information from the Statement of Net Assets:

	Plan Net Assets (Thousands of Dollars)			
	2011	2010	Change	Percent
Total Assets	\$ 1,040,350	958,324	82,026	8.56%
Total Liabilities	7,222	7,110	112	1.57%
Net Assets	\$ <u>1,033,128</u>	<u>951,214</u>	<u>81,914</u>	<u>8.61%</u>

The following table shows condensed information from the Statement of Changes in Fiduciary Net Assets:

	Additions to Plan Net Assets (Thousands of Dollars)			
	2011	2010	Change	Percent
Employer Contributions	\$ 26,336	25,331	1,005	3.97%
Member Contributions & Transfers	26,579	26,209	370	1.41%
State Contributions	5,327	5,076	251	4.94%
Total Contributions & Transfers	<u>58,242</u>	<u>56,616</u>	<u>1,626</u>	<u>2.87%</u>
Investment Income and Appreciation	110,442	92,379	18,063	19.55%
Other Income	58	91	(33)	(36.26%)
Total Investment & Other Income	<u>110,500</u>	<u>92,470</u>	<u>18,030</u>	<u>19.50%</u>
Total Additions	\$ <u>168,742</u>	<u>149,086</u>	<u>19,656</u>	<u>13.18%</u>

	Deductions from Plan Net Assets (Thousands of Dollars)			
	2011	2010	Change	Percent
Retirement Benefits	\$ 83,004	79,039	3,965	5.02%
Refunds to Members	3,011	2,221	790	35.57%
Administrative Expenses	813	1,050	(237)	(22.57%)
Total Deductions	\$ <u>86,828</u>	<u>82,310</u>	<u>4,518</u>	<u>5.49%</u>

Omaha School Employees' Retirement System

Management's Discussion and Analysis

Contacting System Financial Management

This financial report is designed to provide the plan sponsor, the Board of Trustees, OSERS membership, contributors, taxpayers and creditors with a general overview of OSERS' finances and to demonstrate OSERS' accountability for the money it receives. If you have any questions about this report or need additional financial information, you may contact the Omaha School Employees' Retirement System by e-mail at osers@ops.org, by phone at 402-557-2102, or by mail at 3215 Cuming Street, Omaha, NE 68131-2024.

Omaha School Employees' Retirement System

Statement of Fiduciary Net Assets August 31, 2011 (Thousands of Dollars)

ASSETS	
Cash and cash equivalents	\$ <u>6,914</u>
Contributions receivable	
Employer	2,237
Plan members	2,192
Other	<u>384</u>
	<u>4,813</u>
Investments	
Cash equivalents held in investment portfolios	24,385
US government securities	13,378
Municipal bonds	5,626
Domestic corporate bonds	328,635
Domestic common stocks	229,777
International common stocks	127,080
Limited partnerships	<u>292,449</u>
Total investments	<u>1,021,330</u>
Accrued investment income	7,267
Prepaid expenses	<u>26</u>
Total assets	<u>1,040,350</u>
LIABILITIES	
Accounts payable	1
Accrued payroll and benefits payable	<u>7,221</u>
Total liabilities	<u>7,222</u>
NET ASSETS	
Held in trust for pension benefits (A schedule of funding progress for the Plan is presented on page 12)	\$ <u><u>1,033,128</u></u>

See Notes to Financial Statements

Omaha School Employees' Retirement System

Statement of Changes in Fiduciary Net Assets For the Year Ended August 31, 2011 (Thousands of Dollars)

ADDITIONS

Contributions

Plan member contributions	\$	25,749
Employer contributions		26,336
State contributions		<u>5,327</u>

Total contributions 57,412

Investment income

Interest and dividends		29,914
Net appreciation in fair value of investments		<u>84,317</u>

114,231

Less investment expense (3,789)

Net investment income 110,442

Purchases of service		830
Other		<u>58</u>

Net additions 168,742

DEDUCTIONS

Retirement benefits		83,004
Refunds to plan members, including interest		3,011
Administrative expenses -		
Personnel costs		368
Professional fees		379
Other		<u>66</u>

Total deductions 86,828

NET INCREASE 81,914

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year 951,214

End of year \$ 1,033,128

See Notes to Financial Statements

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2011 (Thousands of Dollars)

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Omaha School Employees' Retirement System (OSERS).

A. *Reporting Entity*

In 1909, the Douglas County School District #0001 (the District) began maintaining a retirement system for its teachers. Subsequently, the District added two more retirement systems, one covering non-teaching school employees and one covering school cafeteria employees. In 1951, the Nebraska State Legislature consolidated the three systems into one new system. The new system, OSERS, is a defined-benefit plan.

OSERS is included as a fiduciary fund of the District. The financial statements present only the activity of the Omaha School Employees' Retirement System and do not purport to, and do not present fairly, the financial position of the District, as of August 31, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. *Basic Financial Statements*

The financial transactions of OSERS are included in the fiduciary funds of the District. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net assets, additions, and deductions. This fund is used to report assets held in a trustee or agency capacity for others, and therefore, are not available to support the District's programs.

C. *Basis of Accounting/Measurement Focus*

OSERS activity is accounted for on an economic-resources measurement focus using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the OSERS are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

D. *Method Used to Value Investments*

OSERS invests in both short-term and long-term securities. Investment managers are utilized to advise the Board of Trustees regarding investments. The market value of the investments will fluctuate as a result of interest rate changes and general economic conditions. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Limited partnership investments that do not have an established market are reported at estimated fair value.

E. *Risks and Uncertainties*

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. The depressed global economic conditions and concern over the security of debt issued by the United States and other sovereign nations has resulted in continued volatility in financial markets and the banking system. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2011 (Thousands of Dollars)

F. *Net Realized Gains and Losses on Investments and Other*

Market value fluctuations and changes in yields make it beneficial to periodically trade securities. These trades are recommended by the investment managers and are intended to maximize growth and earnings. When a trade is executed, the market value is compared to the cost and any difference is recorded as net realized gain or loss. No adjustments are recognized for the anticipated change in growth or yield.

(2) **Cash and Investments**

A. *Legal and Contractual*

OSERS investments are governed by State statute 79-9,108 and 79-9,111. These statutes state that the Trustees of OSERS, with approval of the Board of Education, shall invest and reinvest funds of OSERS. The Board of Education shall approve or deny the investments each month. The Trustees shall invest the funds of OSERS in investments of the nature which individuals of prudence, discretion, and intelligence acquire or retain in dealing with property of another. Such investments shall not be made for speculation, but for investment, considering the probable safety of their capital as well as the probable income derived.

The Trustees shall not purchase investments on margin or enter futures contracts or other contract obligations which require the payment of margin, or enter into any similar contractual arrangement which may result in losses in excess of the amount paid or deposited with respect to investment contracts, unless such transaction constitutes a hedging transaction or is incurred for the purpose of portfolio or risk management for the funds and investments of the system. The Trustees may write covered call options or put options. The Trustees may lend any security if cash, United States Obligations, or United States Government Agency Obligations, with a market value equal to, or exceeding the market value of, the security lent or received as collateral.

B. *Credit Risk*

The credit quality of the bonds held in the portfolio is listed below. Each bond investment manager is required to invest according to investment guidelines, including credit quality, established for them by the Board of Trustees.

	Credit Quality Distribution of Securities with Credit Exposures as a Percentage of Each Bond Account		
	Atlantic Asset Management	Fountain Capital Management	Guggenheim Investment Management
Treasury	--	--	--
Agency	--	--	--
AAA	--	--	--
AA	23.89%	--	--
A	54.19%	--	--
BBB	21.92%	--	1.32%
BB	--	47.41%	14.92%
B	--	52.59%	61.13%
CCC	--	--	19.96%
CC	--	--	--
C/D	--	--	1.66%
NR	--	--	1.01%
Total Value	\$ 65,825,929	169,763,830	93,457,566

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2011 (Thousands of Dollars)

C. *Interest Rate Risk*

OSERS does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses that may result from increasing interest rates.

<u>Maturity (Years)</u>	<u>As a Percentage of Market Value</u>
0 to 4	73.96%
5 to 10	15.72%
Over 10	10.32%

D. *Foreign Currency Risk*

The exposure to foreign currency is outlined below on a portfolio-wide basis:

<u>Currency</u>	<u>Market Value</u>	<u>Percentage of Portfolio</u>
Australian Dollar	\$ 7,447	0.73%
British Sterling Pound	23,413	2.29
Canadian Dollar	3,889	0.38
Danish Kroner	6,440	0.63
EMU (Euro)	9,881	0.97
Hong Kong Dollar	21,076	2.06
Japanese Yen	33,904	3.32
Singapore Dollar	5,570	0.55
Swedish Krona	4,008	0.39
Swiss Franc (Chf)	11,750	1.15
United States Dollar	893,952	87.53
Total	\$ <u>1,021,330</u>	<u>100.00%</u>

OSERS' foreign currency-denominated investments include both corporate bonds and stocks.

E. *Investments*

The following is a summary of investments at August 31, 2011:

Cash equivalents held in investment portfolios	\$ 24,385
U.S. government securities	13,378
Municipal bonds	5,626
Domestic corporate bonds	328,635
Domestic common stocks	229,777
International common stocks	127,080
Limited partnerships	292,449
Total	\$ <u>1,021,330</u>

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2011 (Thousands of Dollars)

(3) Plan Description and Contribution Information

A. Membership Information

Membership consisted of the following as of September 1, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	3,587
Deferred vested plan members	566
Active and leave of absence plan members	7,491
Total	<u>11,644</u>

B. Plan Description

The employees of the District, OSERS and Educational Service Unit #19 are covered by OSERS. OSERS is a single-employer retirement plan.

In accordance with Nebraska statutes, OSERS is governed by the Board of Education, which is advised by a Board of Trustees composed of three employees, one annuitant, three Board of Education members, two business people, and the Superintendent of the District. OSERS is administered by its Executive Director. The State of Nebraska has the authority under which plan obligations may be amended or established.

C. Contributions

Employees of the District, OSERS and Educational Service Unit #19 are required to contribute 8.30% of their annual salary to OSERS. The District, OSERS and Educational Service Unit #19 contribute 8.383% of member salaries or such amount above 8.383% necessary to maintain the solvency of OSERS. For fiscal years beginning July 1, 2009, until July 1, 2014, the State of Nebraska contributes 1% of the employees' compensation. For fiscal years following July 1, 2014, the State of Nebraska will revert to the pre-2009 contribution of 7/10ths of 1% of the employees' compensation. Administrative costs of OSERS are financed through investment earnings.

D. Payment of Benefits and Refunds

Each employee who has completed five or more years of creditable service is eligible to elect a deferred vested service annuity in lieu of a refund of accumulated contributions. OSERS provides for various benefits including normal retirement benefits, early retirement benefits, disability benefits, and pre-retirement and post-retirement survivor benefits. These benefits are paid monthly from OSERS. The benefits under OSERS are based on an average of the highest three years of salary earned by employees during their employment with the District, up to their normal retirement dates. Employees who terminate employment with fewer than five years of creditable service can elect to receive a refund or a rollover of the employee's contributions, plus accrued interest.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2011 (Thousands of Dollars)

(4) Funded Status and Funding Progress

The funded status of OSERS as of September 1, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$1,078,269	\$1,467,850	\$389,581	73.46%	\$302,229	128.90%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows:

- Actuarial valuation date is September 1, 2010.
The actuarial cost method used to determine the annual required contribution (ARC) is the Entry Age Normal Cost Method.
- The assets are shown at actuarial value which is a market-related smoothed value.
- Economic assumptions are:
 - Inflation: 3.5%
 - General wage growth: 4.0%
 - Investment return: 8.0%
 - Salary increases: 4.0% plus merit of 0% to 2.6%
 - Post-retirement benefit increases: 1.5%
- The amortization period is an open 30-year period.

Omaha School Employees' Retirement System

Schedule of Funding Progress August 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/2005	887,165,000	1,126,967,000	239,802,000	78.7%	231,708,783	103.49%
9/1/2006	948,938,000	1,195,354,000	246,416,000	79.4%	248,759,070	99.06%
9/1/2007	1,117,628,000	1,255,527,000	137,899,000	89.0%	272,844,149	50.54%
9/1/2008	1,149,289,000	1,346,999,000	197,710,000	85.3%	272,720,007	72.50%
9/1/2009	1,061,326,000	1,410,318,000	348,992,000	75.3%	287,770,291	121.27%
9/1/2010	1,078,269,000	1,467,850,000	389,581,000	73.5%	302,229,282	128.90%

Omaha School Employees' Retirement System

Schedule of Employer Contributions and Other Contributing Entities August 31, 2011

Year Ending	Annual Required Contribution (a)	Total Contribution* (b)	Percentage of ARC Contribution (b/a)
8/31/2005	22,459,221	20,210,403	90.00%
8/31/2006	24,311,628	26,766,000	110.10%
8/31/2007	28,143,388	24,981,000	88.80%
8/31/2008	19,491,557	26,162,000	134.20%
8/31/2009	24,103,114	25,918,000	107.53%
8/31/2010	30,900,224	29,182,000	94.44%

*Includes contributions from the employer and other contributing entities.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Education
Omaha School Employees' Retirement System:

We have audited the financial statements of the Omaha School Employees' Retirement System (OSERS) as of and for the year ended August 31, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of OSERS is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered OSERS' 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OSERS' internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of OSERS in a separate letter dated November 10, 2011.

This report is intended solely for the information and use of the Board of Education, Board of Trustees, management, and the appropriate Federal and state regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 10, 2011.