

**Omaha School Employees'
Retirement System**

**Financial Statements
August 31, 2012**

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 and for the year ended August 31, 2012, and the related Statement of Changes in Fiduciary Net Assets for the year then ended. These financial statements are the responsibility of 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, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSERS as of August 31, 2012, 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 \$347,630,000 (32% of net assets) as of August 31, 2012, 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 16, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 16, 2012.

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, 2012. 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 \$62 million during the fiscal year to \$1,096 million. This 6% increase in net assets was due to employee and employer contributions and a continued recovery in the market value of the investments held by OSERS.

The plan experienced total additions of over \$154 million. The employer contributions were increased this year by a one-time payment of \$4 million due to a health insurance premium holiday for the month of December 2011. The School Board and the various employee bargaining units agreed that the premium savings from the health insurance premium holiday would be contributed to OSERS. The weaker investment appreciation caused by a slowing of the economic recovery resulted in total additions being less than the previous fiscal 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 continued the increase of withdrawals from members who left employment with Omaha Public Schools. A change in policy on the method used for vacation accrual caused a one year decrease in personnel costs during the previous fiscal year. The increase in administrative expense reflects a normal year of expenses.

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:

1. The *Statement of Fiduciary 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.
2. 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 fiduciary net assets.
3. 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.
4. The *Supplemental 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 Fiduciary Net Assets:

	Plan Net Assets (Thousands of Dollars)			
	2012	2011	Change	Percent
Total Assets	\$ 1,095,659	1,040,350	55,309	5.32%
Total Liabilities	94	7,222	(7,128)	(98.70)%
Net Assets	\$ 1,095,565	1,033,128	62,437	6.04%

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

	Additions to Plan Net Assets (Thousands of Dollars)			
	2012	2011	Change	Percent
Employer Contributions	\$ 33,191	26,336	6,855	26.03%
Member Contributions and Purchases of Service	29,556	26,579	2,977	11.20%
State Contributions	5,392	5,327	65	1.22%
Total Contributions and Purchases of Service	68,139	58,242	9,897	16.99%
Net Investment Income	85,837	110,442	(24,605)	(22.28)%
Other Income	49	58	(9)	(15.52)%
Total Investment & Other Income	85,886	110,500	(24,614)	(22.28)%
Total Additions	\$ 154,025	168,742	(14,717)	(8.72)%

	Deductions from Plan Net Assets (Thousands of Dollars)			
	2012	2011	Change	Percent
Retirement Benefits	\$ 87,479	83,004	4,475	5.39%
Refunds to Members	3,142	3,011	131	4.35%
Administrative Expenses	967	813	154	18.80%
Total Deductions	\$ 91,588	86,828	4,760	5.48%

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, 2012 (Thousands of Dollars)

ASSETS:	
Cash and cash equivalents	\$ <u>2,971</u>
Contributions receivable:	
Employer	2,286
Plan members	2,273
Other	<u>558</u>
Total contributions receivable	<u>5,117</u>
Investments:	
Cash equivalents held in investment portfolios	9,825
U.S. government securities	23,213
Municipal bonds	6,591
Domestic corporate bonds	298,717
Domestic common stocks	260,351
International common stocks	101,033
Limited partnerships	347,630
Collective equity funds	<u>34,415</u>
Total investments	<u>1,081,775</u>
Accrued investment income	<u>5,772</u>
Prepaid expenses	<u>24</u>
Total assets	<u>1,095,659</u>
LIABILITIES:	
Accounts payable	1
Accrued payroll and benefits payable	<u>93</u>
Total liabilities	<u>94</u>
NET ASSETS	
Held in trust for pension benefits (A schedule of funding progress for the Plan is presented on page 12)	\$ <u><u>1,095,565</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, 2012 (Thousands of Dollars)

ADDITIONS:

Contributions:

Plan member contributions	\$	28,575
Employer contributions		33,191
State contributions		<u>5,392</u>

Total contributions 67,158

Investment income:

Interest and dividends		53,654
Net appreciation in fair value of investments		<u>36,695</u>

90,349

Less investment expense (4,512)

Net investment income 85,837

Purchases of service 981

Other 49

Net additions 154,025

DEDUCTIONS:

Retirement benefits		87,479
Refunds to plan members, including interest		3,142
Administrative expenses:		
Personnel costs		401
Professional fees		488
Other		<u>78</u>

Total deductions 91,588

NET INCREASE 62,437

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year 1,033,128

End of year \$ 1,095,565

See Notes to Financial Statements

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2012 (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, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2012 (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 Government Obligations, or United States Government Agency Obligations with a market value equal to or exceeding the market value of the security lent are 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

Treasury	--
Agency	--
AAA	7.45%
AA	1.12%
A	14.45%
BBB	6.19%
BB	31.68%
B	35.84%
CCC	.52%
CC	--
C/D	--
NR	2.75%
Total Value	\$ <u>325,667</u>

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Notes to Financial Statements August 31, 2012 (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	71.35%
5 to 10	14.32%
Over 10	14.33%

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	\$ 7,930	0.73%
British Sterling Pound	20,648	1.90
Canadian Dollar	3,176	0.29
Danish Kroner	4,609	0.43
EMU (Euro)	8,329	0.77
Hong Kong Dollar	14,238	1.32
Japanese Yen	24,889	2.30
Singapore Dollar	3,889	0.35
Swedish Krona	3,738	0.34
Swiss Franc (Chf)	10,171	0.94
United States Dollar	<u>985,930</u>	<u>90.63</u>
Total	\$ <u>1,087,547</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, 2012:

Cash equivalents	\$ 9,825
U.S. government securities	23,213
Municipal bonds	6,591
Domestic corporate bonds	298,717
Domestic common stocks	260,351
International common stocks	101,033
Limited partnerships	347,630
Collective equity funds	<u>34,415</u>
Total	\$ <u>1,081,775</u>

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2012 (Thousands of Dollars)

(3) Plan Description and Contribution Information

A. *Membership Information*

Membership consisted of the following as of September 1, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	3,707
Deferred vested plan members	680
Active and leave of absence plan members	<u>7,215</u>
Total	<u><u>11,602</u></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 9.30% of their annual salary to OSERS. The District, OSERS and Educational Service Unit #19 contribute 9.393% of member salaries or such amount above 9.393% 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, 2012 (Thousands of Dollars)

(4) Commitments

Commitments outstanding and available for investment on demand by the limited partnerships as of August 31, 2012 were as follows:

Limited Partnership in:	
Stonetree Capital Fund IV	\$ 39,513
Almanac Realty Securities VI	23,077
JP Morgan Global Maritime Fund	22,342
FCP Fund II	22,275
JP Morgan India Property Fund II	15,298
SPC Capital Management	15,000
Mariner Real Estate Partners III	7,090
Palmer Square Emerging Management Fund	7,075
	\$ 151,670

(5) Funded Status and Funding Progress

The funded status of OSERS as of September 1, 2011, 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)
\$1,110,033	\$1,516,284	\$406,251	73.21%	\$310,229	130.95%

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, 2011.
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: 3.0%
 - General wage growth: 4.0%
 - Investment return: 8.0%
 - Salary increases: 4.0% plus merit of 0% to 1.6%
 - 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, 2012

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)
9/1/2006	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%
9/1/2011	1,110,033,000	1,516,284,000	406,251,000	73.2%	310,228,916	130.95%

Omaha School Employees' Retirement System

Schedule of Employer Contributions August 31, 2012

Year Ending	Annual Required Contribution (a)	Total Contribution* (b)	Percentage of ARC Contribution (b/a)
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%
8/31/2011	34,180,566	30,255,000	88.52%

*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, 2012, and have issued our report thereon dated November 16, 2012. 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 OSERS' 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 16, 2012.

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 16, 2012.