Omaha School Employees' Retirement System

Financial Statements
and Supplementary Information
August 31, 2014

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:

Report on the Financial Statements

We have audited the accompanying financial statements of the fiduciary net position 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, 2014, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSERS as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

Emphasis of Matters

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, 2014, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2014 OSERS adopted new accounting guidance to reflect the provisions of Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plans*.

The financial statements include investments valued at $612,132,000 (47% of net position) as of August 31, 2014, 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.

Our opinion is not modified with respect to these matters.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of changes in the net pension liability on pages 14 – 15, the schedule of employer contributions on pages 16 – 18, and the schedule of money-weighted rate of return on page 18, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 10, 2014, on our consideration of OSERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering OSERS' internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
November 10, 2014.

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, 2014. 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 position of the plan, which represent funds available to pay current and future pension benefits, increased by $124 million during the fiscal year to $1,295 million. This 10.6% increase in net position was due to employee and employer contributions and a continued growth in the market value of the investments held by the Retirement System.

The plan experienced total additions of over $226 million, a 32.6% increase over last year. The primary cause of the additions was the continuing economic recovery, which provided greater income and appreciation in the investment portfolio. In addition, the employee contribution rate was increased from 9.3% to 9.78%; the employer contribution rate was increased from 9.393% to 9.878%; and the State of Nebraska contribution was increased from 1% to 2%.

Total retirement benefits paid were higher than last year due to increased numbers of retirees who are receiving greater retirement benefits. We experienced a larger number of employees who departed mid-career, leading to an increase in the refunds to members. Administrative expenses were greater for 2014 as a result of the search for a new investment manager and an increase in legal fees.

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

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

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 *Required 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.

Financial Analysis

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

	Plan Net Position (Thousands of Dollars)			
	2014	2013	Change	Percent
Total Assets	$ 1,303,299	1,178,465	124,834	10.59%
Total Liabilities	8,577	8,118	459	5.66%
Net Position	$ 1,294,722	1,170,347	124,375	10.63%

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

	Additions to Plan Net Position (Thousands of Dollars)			
	2014	2013	Change	Percent
Employer contributions	$ 31,913	29,581	2,332	7.88%
Member contributions and Purchases of service	32,271	30,123	2,148	7.13%
State contributions	7,888	5,544	2,344	42.27%
Total contributions and purchases of service	72,072	65,248	6,824	10.46%
Net investment income	153,982	105313	48,669	46.21%
Other income	29	89	(60)	(67.42)%
Total investment income and other income	154,011	105,402	48,609	46.12%
Total additions	$ 226,083	170,650	55,433	32.48%

	Deductions from Plan Net Position (Thousands of Dollars)			
	2014	2013	Change	Percent
Retirement benefits	$ 96,794	92,104	4,690	5.09%
Refunds to members	4,016	3,003	1,013	33.73%
Administrative expenses	898	761	137	18.06%
Total deductions	$ 101,709	95,868	5,841	6.09%

Contacting OSERS 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 Position
August 31, 2014 (Thousands of Dollars)

ASSETS:		
Cash and cash equivalents	$	8,898
Contributions receivable:		
Employer		2,497
Plan members		2,552
Other		448
Total contributions receivable		5,497
Investments:		
Cash equivalents held in investment portfolios		8,971
U.S. government securities		21,799
Municipal bonds		4,417
Domestic corporate bonds		101,330
Domestic common stocks		395,041
International common stocks		96,353
Limited partnerships		612,132
Collective equity funds		46,808
Total investments		1,286,851
Accrued investment income		2,023
Prepaid expenses		30
Total assets		1,303,299
LIABILITIES:		
Accounts payable		161
Accrued payroll and benefits payable		8,416
Total liabilities		8,577
NET POSITION RESTRICTED FOR PENSIONS	$	1,294,722

See Notes to Financial Statements

Omaha School Employees' Retirement System

Statement of Changes in Fiduciary Net Position
For the Year Ended August 31, 2014 (Thousands of Dollars)

ADDITIONS:		
Contributions:		
Plan member contributions	$	31,597
Employer contributions		31,913
State contributions		7,888
Total contributions		71,398
Investment income:		
Interest and dividends		24,205
Net appreciation in fair value of investments		134,874
		159,079
Less investment expense		(5,097)
Net investment income		153,982
Purchases of service		674
Other		29
Total additions		226,083
DEDUCTIONS:		
Retirement benefits		96,794
Refunds to plan members, including interest		4,016
Administrative expenses:		
Personnel costs		414
Professional fees		292
Other		192
Total deductions		101,708
NET INCREASE IN NET POSITION		124,375
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year		1,170,347
End of year	$	1,294,722

See Notes to Financial Statements

(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 financial position and changes in financial position 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, 2014, or 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 position, 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 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 provisions.

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. 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.

August 31, 2014 (Thousands of Dollars)

F. Change in Accounting Principle

During 2014, OSERS adopted the provisions of Governmental Auditing Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. GASB Statement No. 67 establishes standards of financial reporting for separately issued financial reports of pension plans and specifies the required approach to measuring the net pension liability about which information is required to be presented.

G. Subsequent Events

OSERS considered events occurring through November 10, 2014 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Plan Description and Contribution Information

A. Membership Information

Membership consisted of the following as of September 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	3,967
Deferred vested plan members	813
Active and leave of absence plan members	7,372
Total	12,152

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 9.78% of their annual salary to OSERS. The District, OSERS and Educational Service Unit #19 contribute 9.878% of member salaries or such amount above 9.878% necessary to maintain the solvency of OSERS. The State of Nebraska contributes 2% of the employees' compensation. Administrative costs of OSERS are financed through investment earnings.

D. Benefits Provided

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. For members hired prior to July 1, 2013, 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. For members hired on or after July 1, 2013, the benefits under OSERS are based on an average of the highest five 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. For members hired prior to July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment of 1.5% or the increase in the consumer price index (CPI), whichever is lower. For members hired on or after July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment of 1.0% or the increase in the CPI, whichever is lower. Following 10 full years of retirement, a medical cost of living supplement is paid. This supplement equals $10 per month for each year retired and increases by $10 each year to a maximum of $250 per month. For retirees with less than twenty years of service, the benefit is reduced proportionately.

August 31, 2014 (Thousands of Dollars)

(3) 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 OSERS. 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 Exposure

AAA	$ 22,864	17.78%
AA	4,875	3.79%
A	15,585	12.11%
BBB	30,292	23.55%
BB	16,776	13.04%
B	27,854	21.65%
CCC	2,549	1.98%
NA	7,851	6.10%
Total	$ 128,646	100.00%

August 31, 2014 (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.

Maturity (Years)	As a Percentage of Market Value
0 to 4	52.72%
5 to 10	33.88%
Over 10	13.40%

D. Foreign Currency Risk

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

Currency		Market Value	Percentage of Portfolio
Australian Dollar	$	7,451	0.57%
British Sterling Pound		13,976	1.08%
Canadian Dollar		3,896	0.30%
Danish Kroner		4,350	0.33%
EMU (Euro)		10,512	0.82%
Hong Kong Dollar		18,897	1.47%
Japanese Yen		16,699	1.30%
Singapore Dollar		3,519	0.27%
Swedish Krona		3,866	0.30%
Swiss Franc (Chf)		13,740	1.07%
United States Dollar		1,191,968	92.49%
Total	$	1,288,874	100.00%

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

E. Annual Money-Weighted Rate of Return

The annual money-weighted rate of return on pension plan investments, net of investment expense, was 13.31% for the year ending August 31, 2014. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. 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.

August 31, 2014 (Thousands of Dollars)

(4) Commitments

Commitments outstanding and available for investment on demand by the limited partnerships as of August 31, 2014 were as follows:

Limited Partnership in:		
Stonetree Capital Fund IV	$	27,764
JP Morgan India Property Fund II		19,535
FCP Fund II		15,988
SPC Capital Management		14,537
JP Morgan Global Maritime Fund		13,912
Almanac Realty Securities VI		13,549
	$	105,285

(5) Net Pension Liability

The components of the net pension liability of OSERS as of August 31, 2014 are as follows:

Total pension liability	$	1,724,435
Fiduciary net position		1,294,722
Net pension liability	$	429,713
Ratio of fiduciary net position to total pension liability		75.08%

Actuarial assumptions. The total pension liability was determined based on an actuarial valuation as of September 1, 2013, rolled forward to August 31, 2014, using standard actuarial formulas and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	4 – 5.6%, including inflation
Investment rate of return	8% compounded annually, net of investment expense, and including inflation
Mortality	Pre-retirement mortality rates were based on the RP 2000 Combined Mortality Table, female rates set back 1 year and male rates with no set back, projected on a generational basis using Scale AA. Post-retirement mortality rates were based on the same rates as the pre-retirement tables. Post-disability mortality rates were based on the same tables as the post-retirement tables, with ages set forward 10 years.

The actuarial assumptions used in the September 1, 2013 valuation were based on the results of the most recent actuarial experience study, dated December 23, 2013.

Information relating to the discount rate used in the actuarial valuations is as follows:

Discount rate: The discount rate used to measure the total pension liability was 8%.

August 31, 2014 (Thousands of Dollars)

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that Plan contributions from plan members, the District and the State of Nebraska will be made at the current contribution rates as set out in state statute.

Long-term rate of return: The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Periods of projected benefit payments: The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Small Cap Equity	12%	7.1%
Global Equity	15%	7.6%
Specialty Funds	15%	11.0%
Alternatives	25%	7.6%
Fixed Income	5%	3.4%
High Yield Investments	16%	5.9%
Real Estate	12%	7.0%
Total	100%	

Sensitivity analysis: The following presents the net pension liability of OSERS, calculated using the discount rate of 8%, as well as OSERS' net pension liability calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Net pension liability	$638,899	$429,713	$254,895

Schedule of Changes in the Net Pension Liability
August 31, 2014 (Thousands of Dollars)

	2014
TOTAL PENSION LIABILITY:	
Service Cost	$ 36,090
Interest	128,868
Changes of benefit terms	--
Difference between expected and actual experience	--
Changes of assumptions	--
Benefit payments	(96,794)
Refunds of contributions	(4,016)
Net change in total pension liability	64,148
TOTAL PENSION LIABILITY - beginning of year	1,660,287
TOTAL PENSION LIABILITY - end of year	1,724,435
PLAN FIDUCIARY NET POSITION:	
Contributions - employer	31,913
Contributions - state	7,888
Contributions - member	31,597
Net investment income	153,982
Benefit payments	(96,794)
Administrative expense	(898)
Refunds of contributions	(4,016)
Other	703
Net change in plan fiduciary net position	124,375
PLAN FIDUCIARY NET POSITION - beginning of year	1,170,347
PLAN FIDUCIARY NET POSITION - end of year	1,294,722
NET PENSION LIABILITY	$ 429,713
Ratio of plan fiduciary net position to total pension liability	75.08%
Covered-employee payroll	323,078
Net pension liability as a percentage of covered-employee payroll	133.01%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OSERS will present information for those years for which information is available.

Notes to the Schedule:

Changes of benefit terms: The following changes to the Plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1, 2013 listed below:

2013: The 2013 session of the Nebraska legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.3% of pay to 9.78% of pay. The School District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1% (plus $973,301) to 2% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013 with the same benefit structure as pre-July 1, 2013 hires except annual cost of living adjustments are the lesser of 1% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

Changes in actuarial assumptions:

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested Certificated members' assumption to elect a refund of contributions was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7% to 3%.

Other Information: In 2014, benefit terms were modified to base monthly benefit payments on an average of the highest three years of salary earned by employees during the employment with the District for members hired prior to July 1, 2013. For members hired on or after July 1, 2013 monthly benefits are based on an average of the highest five years of salary earned by employees during their employment with the District.

Schedule of Employer Contributions
August 31, 2014 (Thousands of Dollars)

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	$	34,225	35,032	32,958	34,181	30,900	24,103	19,492	28,143	24,312	22,459
Employer statutory		31,913	29,581	28,861	26,336	25,331	22,148	20,108	17,200	15,672	14,578
Employer additional		--	--	4,330	--	--	--	3,171	5,067	8,434	3,100
State*		6,285	4,042	3,918	3,919	3,851	3,770	2,883	2,714	2,660	2,532
Total actual contributions		38,198	33,623	37,109	30,255	29,182	25,918	26,162	24,981	26,766	20,210
Annual contribution deficiency (excess)	$	(3,973)	1,409	(4,151)	3,926	1,718	(1,815)	(6,670)	3,162	(2,454)	2,249
Covered-employee payroll	$	323,078	313,946	307,258	310,229	302,229	287,770	272,720	272,844	248,759	231,709
Actual contributions as a percentage of covered-employee payroll		11.82%	10.71%	12.08%	9.75%	9.66%	9.01%	9.59%	9.16%	10.76%	8.72%

** Excludes state contribution for state service annuity.*

Notes to the Schedule:

The actuarially determined contributions in this schedule of employer contributions are calculated based on the actuarial contributions rate in the valuation prepared as of September 1, prior to the fiscal year end times the actual covered payroll for the fiscal year. The following actuarial methods and assumptions were used to determine the actuarially determined employer contribution reported for fiscal year end 2014:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Market related smoothed value
Inflation	3.00%
Salary increase	4.00% to 5.60%, including inflation
Investment rate of return	8.00% compounded annually, net of investment expense, and including inflation

Historical changes in benefit terms and actuarial assumptions are outlined below:

Changes of benefit terms: The following changes to the Plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1, 2013 listed below:

2013: The 2013 session of the Nebraska legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.3% of pay to 9.78% of pay. The District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1% (plus $973,301) to 2% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013 with the same benefit structure as pre-July 1, 2013 hires except annual cost of living adjustments are the lesser of 1% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

2011: The member contribution rate was increased by the 2011 Legislature form 8.3% to 9.3%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1% increase in the member contribution rate resulted in an increase of 1.01% in the District's contribution rate.

2009: Legislation passed in 2009 increased the employee contribution rate from 7.3% to 8.3% of pay. The District contributes 101% of the employee rate so the District's contribution increased from 7.373% to 8.383% of pay. The legislation that enacted these changes also provided for a temporary increase in the State's contribution rate from .7% to 1% of pay for July, 2009 to July, 2014.

2007: Legislation passed in 2007 increased the employee contribution rate form 6.3% to 7.3% of pay and provided for the employer contribution rate of 101% of the employee rate.

Changes in actuarial assumptions:

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested Certificated members' assumption to elect a refund of contributions was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7% to 3%.

9/1/2010 valuation:

- The inflation assumption was changed from 3.5% to 3%.
- The real rate of return increased from 4.5% to 5%.
- The productivity portion of the general wage increase assumption increased form .5% to 1%.

9/1/2008 valuation:

- Mortality table was changed to the RP-2000 table with age adjustments (+1 male, -1 female) and generational projections of mortality improvement.
- Retirement rates were adjusted to better fit the observed experience.
- The use of a disability assumption was eliminated.
- Termination rates were modified to better fit the observed experience.
- Small adjustments based on actual experience were made to the election of a refund assumption.

9/1/2007 valuation:

- The actuarial value of assets was reset to the actual market value.
- The funding policy was set equal to the normal cost plus amortization of the unfunded actuarial liability over a closed 30 year period, commencing September 1, 2007.

Schedule of Money-Weighted Rate of Return
August 31, 2014

	Money-Weighted Rate of Return
2014	13.31%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OSERS will present information for those years for which information is available.

SEIM JOHNSON

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*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Omaha School Employees' Retirement System (OSERS) as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OSERS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSERS' internal control. Accordingly, we do not express an opinion on the effectiveness of OSERS' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seim Johnson, LLP

Omaha, Nebraska,
November 10, 2014.

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