Omaha School Employees' Retirement System

Financial Statements and
Supplementary Information
August 31, 2016

Together with Independent Auditor's Report

Omaha School Employees' Retirement System

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SEIM JOHNSON

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Omaha School Employees' Retirement System (OSERS), a fiduciary fund of Douglas County School District #0001 (District), which comprise the statement of fiduciary net position as of August 31, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2016, 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, 2016, 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.

The financial statements include investments valued at $521,090,000 (44% of net position) as of August 31, 2016, 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 17 through 18, the schedule of employer contributions on pages 19 through 21, and the schedule of money-weighted rate of return on page 22, 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 17, 2016 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 17, 2016.

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 (the District), more commonly known as the Omaha School Employees' Retirement System (OSERS), for the fiscal year ended August 31, 2016. 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, decreased by $22.6 million during the fiscal year to $1.2 billion. This 1.87% decrease in net position was due to an increase in the number of retirees (and beneficiaries) currently receiving monthly retirement benefit payments from OSERS.

The plan experienced total additions of over $91.7 million. The primary cause of the increase from the previous year in the amount of additions was the continuing volatility in the global economy, which resulted in a relatively flat change in the value of the investment portfolio and a decrease in investment management fees from the previous year.

Total retirement benefits paid in fiscal 2016 increased by approximately $7 million from last year. This was due to the continued increase in the numbers of retirees, who are receiving retirement benefits at a rate greater than retirees retiring in past decades. Although we continue to experience a large number of employees who depart mid-career, during fiscal year 2016 we had a decrease in the dollar amount of requested refunds of employee contributions plus interest. Administrative expenses increased slightly for fiscal 2016.

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 position on the statement of fiduciary net position.

3. The *Notes to 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 Supplementary Information* consists of data on the funded status of OSERS and the status of contributions from the District and the State of Nebraska.

Financial Analysis

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

	Fiduciary Net Position (Thousands of Dollars)			
	2016	2015	Change	Percent
Total assets	$ 1,198,319	1,220,682	(22,363)	-1.83%
Total liabilities	9,823	9,575	248	2.59%
Net position	$ 1,188,496	1,211,107	(22,611)	-1.87%

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

	Additions to Fiduciary Net Position (Thousands of Dollars)			
	2016	2015	Change	Percent
Employer contributions	$ 33,903	33,109	794	2.40%
Member contributions and purchases of service	34,005	33,383	622	1.86%
State contributions	8,365	8,573	(208)	-2.43%
Total contributions and purchases of service	76,273	75,065	1,208	1.61%
Net investment income (loss)	15,375	(51,289)	66,664	-129.98%
Other income	137	83	54	65.06%
Total investment income and other income (loss)	15,512	(51,206)	66,718	-130.29%
Total additions	$ 91,785	23,859	67,926	284.70%

	Deductions from Fiduciary Net Position (Thousands of Dollars)			
	2016	2015	Change	Percent
Retirement benefits	$ 109,083	102,330	6,753	6.60%
Refunds to members	4,023	4,405	(382)	-8.67%
Administrative expenses	1,290	739	551	74.56%
Total deductions	$ 114,396	107,474	6,922	6.44%

Changes in Fiduciary Net Position (Thousands of Dollars)

	2016	2015	Change	Percent
Net position, beginning of year	$ 1,211,107	1,294,722	(83,615)	-6.46%
Net decrease in net position	(22,611)	(83,615)	61,004	-72.96%
Net position, end of year	$ 1,188,496	1,211,107	(22,611)	-1.87%

Legislative Changes

On March 31, 2016, the Nebraska Legislature enacted Legislative Bill (LB) 447 which makes a number of changes to the governance, administration, benefits and investment authority of OSERS. Among these changes, OSERS' fiscal year end will change to a calendar year, with the first calendar year end being December 31, 2016. Other major changes enacted by LB 447 are included throughout the notes to financial statements.

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 531-299-0329, or by mail at 3215 Cuming Street, Omaha, NE 68131-2024.

Omaha School Employees’ Retirement System

Statement of Fiduciary Net Position
August 31, 2016 (Thousands of Dollars)

ASSETS:	
Cash and cash equivalents	$ 13,080
Contributions receivable:	
Employer	2,677
Plan members	2,761
Other	169
Total contributions receivable	5,607
Investments, at fair value:	
Cash equivalents held in investment portfolios	48,523
U.S. government securities	34,216
Municipal bonds	3,024
Domestic corporate bonds	49,410
Domestic common stocks	376,471
International common stocks	93,272
Limited partnerships	521,090
Collective equity funds	52,804
Total investments	1,178,810
Accrued investment income	798
Other assets	24
Total assets	1,198,319
LIABILITIES:	
Accounts payable	416
Accrued payroll and benefits payable	9,407
Total liabilities	9,823
NET POSITION RESTRICTED FOR PENSIONS	$ 1,188,496

See Notes to Financial Statements

Omaha School Employees’ Retirement System

Statement of Changes in Fiduciary Net Position
For the Year Ended August 31, 2016 (Thousands of Dollars)

ADDITIONS:		
Contributions:		
Plan member contributions	$	33,764
Employer contributions		33,903
State contributions		8,365
Total contributions		76,032
Investment income (loss):		
Interest and dividends		21,300
Net depreciation in fair value of investments		(1,726)
		19,574
Less investment expense		(4,199)
Net investment income		15,375
Purchases of service		241
Other income		137
Total additions		91,785
DEDUCTIONS:		
Retirement benefits		109,083
Refunds to plan members, including interest		4,023
Administrative expenses:		
Personnel costs		402
Professional fees		816
Other		72
Total deductions		114,396
NET DECREASE IN NET POSITION		(22,611)
NET POSITION RESTRICTED FOR PENSIONS:		
Beginning of year		1,211,107
End of year	$	1,188,496

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, 2016, 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.

On March 31, 2016, the Nebraska Legislature enacted Legislative Bill (LB) 447 which makes a number of changes to the governance, administration, benefits and investment authority of OSERS. Among these changes, OSERS' fiscal year end will change to a calendar year, with the first calendar year end being December 31, 2016. Other major changes enacted by LB 447 are included throughout the notes to financial statements.

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. Member contributions are recognized in the period in which the contributions are due. Employer contributions and State of Nebraska 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. 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, 2016 (Thousands of Dollars)

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of fiduciary net position and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

G. Recent Accounting Pronouncements

In February 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for periods beginning after June 15, 2015. Earlier application is encouraged. OSERS adopted the guidance for the 2016 fiscal year. The impact of adopting this statement is reflected in the financial statements.

H. Subsequent Events

OSERS considered events occurring through November 17, 2016 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, 2015, the date of the valuation used to determine the August 31, 2016 total pension liability:

Inactive members or their beneficiaries currently receiving benefits	4,351
Inactive members entitled to but not yet receiving benefits	984
Inactive nonvested members entitled to a refund of member contributions	210
Active members	7,393
Total	12,938

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. Through June 30, 2016, OSERS was 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. Effective July 1, 2016, with the enactment Legislative Bill 447, the Board of Trustees was reduced to seven members, removing the three Board of Education members. OSERS is administered by the Executive Director of OSERS. The State of Nebraska has the authority under which plan provisions and 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 ten 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.

The 2016 session of the Nebraska Legislature enacted LB 447 changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No state service annuity or medical COLA is provided for members hired on or after July 1, 2016.

(3) Cash and Investments

A. Legal and Contractual

OSERS investments are governed by Nebraska Revised Statute §79-9,108 (Supp. 2016) and §79-9,111 (Supp. 2016). These statutes state that the Board of Trustees of OSERS, shall invest and reinvest funds of OSERS. The Board of Trustees shall approve or deny the investments each month. The Board of 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 Board of 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 Board of Trustees may write covered call options or put options. The Board of 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.

With the enactment of LB 447, effective January 1, 2017, the Nebraska Investment Council (NIC) and State Investment Officer will have the duty and authority to invest the assets of OSERS in accordance with the Nebraska State Funds Investment Act. The Board of Trustees shall not have any duty, responsibility or authority for the investment or reinvestment of OSERS funds and assets after this date. The administrator of OSERS shall serve as a nonvoting ex-officio member of the NIC beginning January 1, 2017.

August 31, 2016 (Thousands of Dollars)

B. Credit Risk

The credit quality of the bonds, including accrued investment income, 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	$	4,021	4.62%
AA		38,332	43.96%
A		15,175	17.40%
BBB		9,873	11.32%
BB		471	0.54%
CCC		201	0.23%
NA		19,121	21.93%
Total	$	87,194	100.00%

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	48.45%
5 to 10	21.45%
Over 10	30.10%

D. Foreign Currency Risk

The exposure to foreign currency is outlined below on a portfolio wide basis. OSERS does not have a formal policy regarding foreign currency risk.

Currency		Market Value	Percentage of Portfolio
Australian Dollar	$	4,493	0.38%
British Sterling Pound		8,436	0.71%
Canadian Dollar		3,871	0.33%
Danish Kroner		3,266	0.28%
EMU (Euro)		14,802	1.26%
Hong Kong Dollar		18,707	1.59%
Japanese Yen		21,890	1.86%
Swedish Krona		2,757	0.23%
Swiss Franc (Chf)		15,159	1.29%
Total foreign currency		93,381	7.93%
United States Dollar		1,086,227	92.07%
Total	$	1,179,608	100.00%

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

August 31, 2016 (Thousands of Dollars)

E. Fair Value Measurement

OSERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

OSERS has the following recurring fair value measurements as of August 31, 2016:

	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Cash equivalents	$ 48,523	48,523	--	--
Fixed income:				
Government and agencies	34,216	--	34,216	--
Municipal bonds	3,024	--	3,024	--
Corporate bonds and notes	26,504	--	26,504	--
Asset-backed securities	4,629	--	4,629	--
Collateralized mortgage backed	18,277	--	18,277	--
Common stock:				
Healthcare	46,924	46,924	--	--
Financials	10,684	10,684	--	--
Consumer staples	8,273	8,273	--	--
Consumer discretionary	52,118	52,118	--	--
Materials	5,509	5,509	--	--
Energy	12,629	12,629	--	--
Information technology	68,976	68,976	--	--
Industrials	24,804	24,804	--	--
Telecommunication service	1,594	1,594	--	--
Other	211,509	211,509	--	--
ADR's	26,723	26,723	--	--
Total investments by fair value level	604,916	518,266	86,650	--
Investments measured at the net asset value (NAV)				
Limited partnerships	521,090			
Collective equity funds	52,804			
Total investments measured at the NAV	573,894			
Total investments measured at fair value	$ 1,178,810			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

August 31, 2016 (Thousands of Dollars)

The valuation method for investments measured at the NAV per share (or its equivalent) is presented on the following table.

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Limited partnerships (1)	$	521,090	214,828	Daily	3 - 6 months
Collective equity funds (2)		52,804	--	Daily	None
	$	573,894	214,828		

(1) Limited partnerships include approximately 60 funds that invest in energy, real estate, commodities and other industries. The fair value of investments in this type have been determined using the NAV per share of the investment as reported by the fund manager. One fund in the amount of $30,333 cannot be redeemed because the fund is in liquidation status. The fund is expected to be fully liquidated by December 31, 2016.

(2) Collective equity funds include 3 funds that invest in shipping and real estate industries. The fair value of the investments in this type have been determined using the NAV per share. These investments have no redemption limitations.

F. Annual Money-Weighted Rate of Return

The annual money-weighted rate of return on pension plan investments, net of investment expense, was 0.89% for the year ending August 31, 2016. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

G. 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.

(4) Net Pension Liability

The components of the net pension liability of OSERS as of August 31, 2016 are as follows:

Total pension liability	$	1,866,456
Fiduciary net position		1,188,496
Net pension liability	$	677,960
Ratio of fiduciary net position to total pension liability		63.68%

August 31, 2016 (Thousands of Dollars)

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation as of September 1, 2015, rolled forward to August 31, 2016, using standard actuarial formula and the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3%
Wage inflation	4%
Salary increases, including price inflation	4 – 5.60%
Long-term rate of return, net of investment expense, including price inflation	8%
Municipal bond index rate:	
Prior measurement date	3.74%
Measurement date	2.85%
Year fiduciary net position is expected to be depleted	N/A
Single equivalent interest rate, net of investment expense, including price inflation:	
Prior measurement date	8%
Measurement date	8%
Cost-of-living adjustments	1.50% if hired before July 1, 2013
	1.00% if hired on or after July 1, 2013
	Medical COLA of $10 per month for each year retired (max $250/month), if hired before July 1, 2016
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 valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending August 31, 2012. The experience study report is 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 at August 31, 2016 was 8%. There was no change in the discount rate since the prior measurement date.

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:

a) Employee contribution rate: 9.78% of compensation.
b) School District contribution rate: 101% of the employee contribution rate.
c) State contribution rate: 2% of the members' compensation.
d) Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in the current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate share of covered payroll in each year for the remainder of the existing members to the total coved payroll for all members.

Based on those assumptions, OSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on investments of 8.00% was applied to all periods of projected benefit payments to determine the total pension liability.

The fiduciary net position projections are based upon OSERS' financial status on the measurement date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 67. As such, the fiduciary net position projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of OSERS, or OSERS' ability to make benefit payments in future years.

Long-term rate of return: The long-term expected rate of return on plan assets is reviewed as part of regular experience studies, prepared periodically. The most recent analysis was performed and results were included in a report dated December 23, 2013. Generally, several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by OSERS' investment consultant. 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 then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: The municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 2.85% on the measurement date.

Periods of projected benefit payments: Projected future benefit payments for all current members were projected through 2114.

August 31, 2016 (Thousands of Dollars)

Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by OSERS' investment consultant for the last experience study, 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	$902,833	$677,960	$489,977

(5) Litigation

OSERS is subject to lawsuits and claims for various amounts brought about in the normal course of business. In the opinion of the management, the ultimate disposition of any claims currently pending will not have a material adverse effect on the fiduciary net position or changes in fiduciary net position of OSERS.

Schedule of Changes in the Net Pension Liability
August 31, 2016 (Thousands of Dollars)

		2016	2015	2014
TOTAL PENSION LIABILITY:				
Service cost at end of year	$	39,451	38,242	36,090
Interest on total pension liability		138,933	133,768	128,868
Difference between expected and actual experience		7,104	(501)	--
Other		1,946	2,919	--
Benefit payments, including member refunds		(113,106)	(106,735)	(100,810)
Net change in total pension liability		74,328	67,693	64,148
TOTAL PENSION LIABILITY - beginning of year		1,792,128	1,724,435	1,660,287
TOTAL PENSION LIABILITY - end of year		1,866,456	1,792,128	1,724,435
PLAN FIDUCIARY NET POSITION:				
Contributions - employer		33,903	33,109	31,913
Contributions - state		6,661	6,453	7,888
Contributions - member		33,764	32,584	31,597
Net investment income		15,375	(51,214)	154,207
Benefit payments, including member refunds		(113,106)	(106,735)	(100,810)
Administrative expense		(1,290)	(814)	(1,123)
Other		2,082	3,002	703
Net change in plan fiduciary net position		(22,611)	(83,615)	124,375
PLAN FIDUCIARY NET POSITION - beginning of year		1,211,107	1,294,722	1,170,347
PLAN FIDUCIARY NET POSITION - end of year		1,188,496	1,211,107	1,294,722
NET PENSION LIABILITY	$	677,960	581,021	429,713
TOTAL PENSION LIABILITY	$	1,866,456	1,792,128	1,724,435
PLAN FIDUCIARY NET POSITION		1,188,496	1,211,107	1,294,722
NET PENSION LIABILITY	$	677,960	581,021	429,713
Ratio of plan fiduciary net position to total pension liability	$	63.68%	67.58%	75.08%
Covered-employee payroll	$	345,231	333,166	323,078
Net pension liability as a percentage of covered-employee payroll	$	196.38%	174.39%	133.01%

See accompanying independent auditor's report

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 and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1 listed below:

2016: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

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.

Omaha School Employees' Retirement System

Exhibit 2

Schedule of Employer Contributions
August 31, 2016 (Thousands of Dollars)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 37,665	34,614	34,225	35,032	32,958	34,181	30,900	24,103	19,492	28,143
Employer statutory	33,903	33,109	31,913	29,581	28,861	26,336	25,331	22,148	20,108	17,200
Employer additional	--	--	--	--	4,330	--	--	--	3,171	5,067
Non-employer (state)*	6,661	6,453	6,285	4,042	3,918	3,919	3,851	3,770	2,883	2,714
Total actual contributions	40,564	39,562	38,198	33,623	37,109	30,255	29,182	25,918	26,162	24,981
Annual contribution deficiency (excess)	$ (2,899)	(4,948)	(3,973)	1,409	(4,151)	3,926	1,718	(1,815)	(6,670)	3,162
Covered-employee payroll	$ 345,231	333,166	323,078	313,946	307,258	310,229	302,229	287,770	272,720	272,844
Actual contributions as a percentage of covered-employee payroll	11.75%	11.87%	11.82%	10.71%	12.08%	9.75%	9.66%	9.01%	9.59%	9.16%

See accompanying independent auditor's report

* *Excludes state contribution for state service annuity.*

August 31, 2016 (Thousands of Dollars)

Notes to the Schedule:

OSERS is funded by statutory contribution rates for members, the School District and the State of Nebraska. If the statutory contribution rate is less than the actuarially determined contribution, the School District will contribute the difference. The actuarially determined contributions in the schedule of employer contributions are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the actuarially determined contribution reported for the most recent measurement date, August 31, 2016 (based on the September 1, 2015 actuarial valuation).

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	Market related smoothed value
Price Inflation	3.00%
Salary increases, including price inflation	4.00% to 5.60%
Long-term rate of return, net of investment expense, including price inflation	8.00%
Cost-of-living adjustments	1.50% if hired before July 1, 2013 1.00% if hired on or after July 1, 2013 Medical COLA of $10 per month for each year retired (max $250/month) if hired before July 1, 2016

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 listed below:

2016: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

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 0.7% to 1% of pay for July, 2009 to July, 2014.

2007: Legislation passed in 2007 increased the employee contribution rate from 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 from 0.5% 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, 2016

	Money-Weighted Rate of Return
2016	0.89%
2015	(4.01%)
2014	13.31%

See accompanying independent auditor's report

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 Trustees
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, 2016, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements, and have issued our report thereon dated November 17, 2016.

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 a 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 17, 2016.

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