

**ATTESTATION REPORT  
OF THE  
NEBRASKA INVESTMENT COUNCIL  
JULY 1, 2007 THROUGH JUNE 30, 2008**

**This document is an official public record of the State of Nebraska, issued by  
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original  
document and may be prohibited by law.**

**Issued on October 22, 2008**

# NEBRASKA INVESTMENT COUNCIL

## TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
Mission Statement	1
Organizational Chart	2
<b>Comments Section</b>	
Exit Conference	3
Comment and Recommendation	4 - 5
<b>Financial Section</b>	
Independent Accountant's Report	6 - 7
Schedule of Revenues, Expenditures, and Changes in Fund Balances	8
Notes to the Schedule	9 - 13
<b>Government Auditing Standards Section</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with <i>Government Auditing Standards</i>	14 - 15
<b>Statistical Section</b>	16
Investments Managed as of December 31, 2007	17
Closing Investment Balances at December 31 <sup>st</sup>	18
Annual Investment and Custodian Expenses	18

# NEBRASKA INVESTMENT COUNCIL

## **BACKGROUND**

The Nebraska Investment Council (Council) was established under 1967 and 1969 laws as a central State investment agency. The Council provides investment management services for the State.

The Council is governed by seven members. Five voting members are appointed by the Governor and confirmed by the Legislature. They serve five-year terms, with one expiring each year. The State Treasurer and the Executive Director of the Nebraska Public Employees Retirement System serve as non-voting members.

The Council establishes necessary and proper policies for the investment of the funds for which it is responsible. Such policies include appropriate investment strategy decisions, selection of external managers, and allocation of funds among managers. The Council appoints a State Investment Officer, subject to the approval of the Governor and the Legislature. The State Investment Officer, with the assistance of Council staff, directs the investment of these funds in accordance with State statutes and the policies of the Council.

Funds managed include the State's general and cash funds; retirement plans for the State Patrol, Judges, and School Employees (with the exception of Omaha); and trust funds such as the Permanent School Fund, the Veterans' Aid Fund, and the Health Care Trust Fund. The Council is also responsible for investing the State Employees and County Employees' retirement system funds, the Deferred Compensation Plan assets, and the funds of the Nebraska Educational Savings Plan Trust.

## **MISSION STATEMENT**

It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.

NEBRASKA INVESTMENT COUNCIL

**ORGANIZATIONAL CHART**

As of June 30, 2008

**INVESTMENT COUNCIL**

Gail Werner-Robertson (Chairwoman)  
Richard A. DeFusco  
John L. Maginn  
John M. Dinkel  
Norman D. Riffel

(non-voting)  
Shane Osborn State Treasurer  
Phyllis Chambers Director-Public Employees Retirement Systems

**STATE INVESTMENT OFFICER**

David L. Bomberger

**PORTFOLIO MANAGERS**

Gayle A. Wrasse  
JoLynn Winkler

**INVESTMENT SECURITY ANALYST**

Joseph P. Jurich

**BUSINESS MANAGER**

Kathy Dawes

**AUDITOR**

Ray Friesen

**OFFICE CLERK**

Brandee Freauf

NEBRASKA INVESTMENT COUNCIL

EXIT CONFERENCE

An exit conference was held September 25, 2008, with the Council to discuss the results of our examination. Those in attendance for the Nebraska Investment Council were:

<u>NAME</u>	<u>TITLE</u>
Gail Werner-Robertson	Council Chair
Richard DeFusco	Council Member
John Maginn	Council Member
Dave Bomberger	State Investment Officer
Kathy Dawes	Business Manager
Ray Friesen	Internal Auditor
Jan Westerman	Internal Auditor

NEBRASKA INVESTMENT COUNCIL

COMMENT AND RECOMMENDATION

During our examination of the Nebraska Investment Council, we noted a certain matter involving the internal control over financial reporting and other operational matters that is presented here.

**Long Term Investments**

Neb. Rev. Stat. § 23-2330.02 (Reissue 2007), Neb. Rev. Stat. § 24-713.02 (Cum. Supp. 2006), Neb. Rev. Stat. § 79-977.02 (Reissue 2003), and Neb. Rev. Stat. §§ 81-2039 and 84-1329.04 (Reissue 1999) state, “All contributions to the retirement system, all property and rights purchased with the contributions, and all investment income attributable to the contributions, property, or rights shall be held in trust by the State of Nebraska for the exclusive benefit of members...” Various State statutes and sections in the Nebraska Constitution require all allowable income items earned on general endowment investments to be distributed back out to the agencies. Good internal control and sound accounting practice also requires procedures to ensure amounts received for class action litigation are deposited with the appropriate plan and the proper income on endowments is distributed to agencies.

The Council manages the investment funds for the Defined Benefit and Cash Balance Benefit Retirement Plans and the investment funds for several endowments. The following was noted during testing of long term investments managed by the Council:

- In November 2007, proceeds of \$111,371 were received from a claims administrator for the settlement of securities class action litigation. The securities involved in the litigation were originally held in funds for the Defined Benefit Plans. The funds which held the securities have been closed. Due to the closing of the funds, the class action proceeds were deposited into a fund used for both the Defined Benefit and Cash Balance Benefit Plans. Since the fund in which the proceeds were deposited was for two different Plans, the proceeds were incorrectly distributed to both the Defined Benefit and Cash Balance Benefit Plans rather than to just the Defined Benefit Plans.
- Income on long term investments for the general endowments is distributed to agencies for their use. Endowment income totaling \$594,566 for October 2007 through December 2007 was not included in the amount to be distributed to various agencies’ trust funds. The income remained in the State’s long term investment accounts rather than being distributed to agencies. The amount not distributed to the individual endowment funds ranged between \$22 and \$500,717 for the individual endowment funds, as follows:

<u>Endowment Fund</u>	<u>Amount</u>
Permanent School Fund	\$ 500,717
Early Childhood Education Endowment Fund	47,713
Veteran’s Aid Fund	42,147
Agricultural College Endowment Fund	2,539
Permanent University Endowment Fund	1,155
State College Endowment Fund	273
Bessey Memorial Fund	22
Total	<u>\$ 594,566</u>

NEBRASKA INVESTMENT COUNCIL

**COMMENT AND RECOMMENDATION**

(Concluded)

Without procedures to ensure proceeds from class action litigation are distributed to the appropriate plan there is an increased risk that plan assets are under or over stated. When endowment income is not appropriately distributed in accordance with statutory requirements agencies do not receive the amount authorized for their use.

We recommend the Council ensure proceeds from class action litigation are deposited with the appropriate plan and all appropriate endowment income be distributed.

*Council's Response: With regard to the application of class action settlement proceeds, the Council staff followed its procedure. The Council staff correctly instructed State Street to apply the proceeds to the defined benefit plans. What occurred is that State Street failed to process the proceeds as directed by the Council. State Street applied the proceeds to both the defined benefit plans and the cash balance benefit plans. The Council will refine its procedure to verify that future class action settlement proceeds are applied to the correct accounts.*

*With regard to the distribution of endowment income, a procedure was in place to address this matter. What occurred is that the Council changed index funds for the Endowments from the Wilshire 5000 to the Russell 1000. State Street's process for calculating income available for distribution was not changed to replace the old index fund (Wilshire 5000) with the new index fund (Russell 1000). This resulted in income generated by the new index fund not being included in the calculation of distributable income. State Street has been notified of this change and has revised their procedures. The Council has confirmed that the 1<sup>st</sup> quarter 2008 distribution included income from the Russell 1000 index funds and the correct income was distributed. In addition, the Council will endeavor to notify State Street when investment managers or funds are changed within the Endowment portfolios and request that their process be revised to reflect this change. The Council will revise its procedure to confirm that income from all appropriate accounts is included in the quarterly calculation. The income earned during the 4<sup>th</sup> quarter of 2007 that was not distributed will be included in the 2<sup>nd</sup> quarter 2008 distribution.*

Draft copies of this report were furnished to the Council to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The formal response received has been incorporated into this report. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@apa.ne.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

### NEBRASKA INVESTMENT COUNCIL

### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Investment Council  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Investment Council (Council) for the fiscal year ended June 30, 2008. The Council's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Investment Council for the fiscal year ended June 30, 2008, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the Nebraska Investment Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Signed Original on File

October 10, 2008

Assistant Deputy Auditor

**NEBRASKA INVESTMENT COUNCIL**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2008

	Nebraska Investment Council Cash Fund 27510	Operating Pool Distributive Fund 77500	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>			
Sales & Charges	\$ 1,620,613	\$ -	\$ 1,620,613
Miscellaneous	31,760	-	31,760
<b>TOTAL REVENUES</b>	<u>1,652,373</u>	<u>-</u>	<u>1,652,373</u>
<b>EXPENDITURES:</b>			
Personal Services	588,318	-	588,318
Operating	967,295	-	967,295
Travel	30,471	-	30,471
<b>TOTAL EXPENDITURES</b>	<u>1,586,084</u>	<u>-</u>	<u>1,586,084</u>
Net Change in Fund Balances	66,289	-	66,289
FUND BALANCES, JULY 1, 2007	<u>247,262</u>	<u>-</u>	<u>247,262</u>
FUND BALANCES, JUNE 30, 2008	<u>\$ 313,551</u>	<u>\$ -</u>	<u>\$ 313,551</u>
<b>FUND BALANCES CONSIST OF:</b>			
General Cash	\$ 315,224	\$ (29,312,288)	\$ (28,997,064)
Deposits with Vendors	504	-	504
Accounts Receivable Invoiced	8,877	-	8,877
Due to Vendors	(11,054)	-	(11,054)
OIP Interest Receivable (See Note 7)	-	29,312,288	29,312,288
<b>TOTAL FUND BALANCES</b>	<u>\$ 313,551</u>	<u>\$ -</u>	<u>\$ 313,551</u>

The accompanying notes are an integral part of the schedule.

# NEBRASKA INVESTMENT COUNCIL

## NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2008

### 1. Criteria

The accounting policies of the Nebraska Investment Council (Council) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Cum. Supp., 2006), the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 1999), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payables recorded in the general ledger as of June 30, 2008, include only those payables posted in the general ledger before June 30, 2008, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2008, **does not** include amounts for goods and services received before June 30, 2008, which had not been posted to the general ledger as of June 30, 2008.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Council are:

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

**70000 – Distributive Funds** – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

NEBRASKA INVESTMENT COUNCIL

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

The major revenue account classifications established by State Accounting used by the Council are:

**Sales & Charges** – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income and recaptured commissions. For further information on recaptured commissions, see Note 8.

The major expenditure account classifications established by State Accounting used by the Council are:

**Personal Services** – Salaries, wages, and related employee benefits provided for all persons employed by the Council.

**Operating** – Expenditures directly related to a program's primary service activities.

**Travel** – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Other significant accounting classifications and procedures established by State Accounting and used by the Council include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger. For significant accounting procedures regarding the Operating Pool Distributive Fund 77500 assets see Note 7.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to fund balance.

**2. Reporting Entity**

The Nebraska Investment Council is a State agency established under and governed by the laws of the State of Nebraska. As such, the Council is exempt from State and Federal income taxes. The schedule includes all funds of the Council included in the general ledger.

The Nebraska Investment Council is part of the primary government for the State of Nebraska.

## NEBRASKA INVESTMENT COUNCIL

### NOTES TO THE SCHEDULE

(Continued)

#### 3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

#### 4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

#### 5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Council takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System as well as all computer equipment.

For the CAFR, the State requires the Council to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three to ten years.

NEBRASKA INVESTMENT COUNCIL

**NOTES TO THE SCHEDULE**

(Continued)

**5. Capital Assets (Concluded)**

Capital asset activity of the Council recorded in the State Accounting System for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 42,382	\$ -	\$ -	\$ 42,382
Less accumulated depreciation for:				
Equipment				<u>38,571</u>
Total capital assets, net of depreciation				<u>\$ 3,811</u>

**6. Reconciliation of Bank Records to the State's General Ledger**

Through their bank reconciliation procedures, State Accounting has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Council. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Council's balances; however, State Accounting believes it will not have a material impact on the Council's operations.

**7. Operating Pool Distributive Fund 77500**

The Operating Pool Distributive Fund 77500 (Fund) is used to record the receipting and distribution of investment income related to the State's Operating Investment Pool (OIP) and Time Deposit Open Account (TDOA). OIP and TDOA investment income transactions are recorded directly to the Fund's accounts receivable and liability accounts, rather than through a revenue or expenditure account.

State Accounting records all interest and dividend income received as a credit to OIP Interest Receivable and a debit to General Cash in NIS. All other income, realized gains and losses, and management fees are recorded on NIS using a liability account. Earned income that has not yet been received increases both the receivable and the liability accounts. Earned income is distributed to funds participating in the OIP by debiting the liability account and crediting cash. At the end of each month, the liability account should have a zero balance and the cash account should have a credit balance which equals the debit balance of the accounts receivable account.

NEBRASKA INVESTMENT COUNCIL

**NOTES TO THE SCHEDULE**

(Continued)

**7. Operating Pool Distributive Fund 77500 (Concluded)**

The following table shows the activity of the Fund. The cash balance of the Fund represents dividends, interest, and net amortization receivable from the custodial bank.

Cash Balance July 1, 2007	Net Earned Income Received	Net Earned Income Allocated	Cash Balance June 30, 2008
\$ (21,565,928)	\$ 120,895,057	\$ (128,641,417)	\$ (29,312,288)

**8. Recaptured Commissions**

The Council receives recaptured commissions on the purchase and/or sale of securities from certain broker dealers. The amount rebated is based on a certain percentage of the brokerage costs and is negotiated between the Council and individual broker dealers. Recaptured commissions are transferred into a separate account at State Street Bank (SSB) and are only to be used to pay for services that directly or indirectly benefit the participants of the investment plans that generated the recaptured commissions. Recaptured commission revenue is not recorded on NIS until the Council disburses money from this SSB account. When the Council records the revenue and expenditure on NIS they will also submit a request to DAS Budget Division to increase their appropriations.

The following schedule shows recaptured commission amounts earned and used during fiscal year 2008:

Beginning Balance July 1, 2007	\$ 451
Recaptured Commissions and Interest Earned	77,239
Recaptured Commissions Used for Expenses	<u>(17,616)</u>
Ending Balance June 30, 2008	<u>\$ 60,074</u>



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@apa.ne.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

NEBRASKA INVESTMENT COUNCIL  
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF  
THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Nebraska Investment Council  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Investment Council as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Investment Council's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Investment Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Investment Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Investment Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the Nebraska Investment Council's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Investment Council's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedule will not be prevented or detected by the Nebraska Investment Council's internal control.

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

#### Compliance and Other Matters

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

We noted the following item that we reported to management of the Nebraska Investment Council in the Comments Section of this report: Long Term Investments.

The Nebraska Investment Council's written response to the finding identified in our examination is described in the Comments Section of the report. We did not examine the Nebraska Investment Council's response and accordingly, we express no opinion on it.

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

Signed Original on File

October 10, 2008

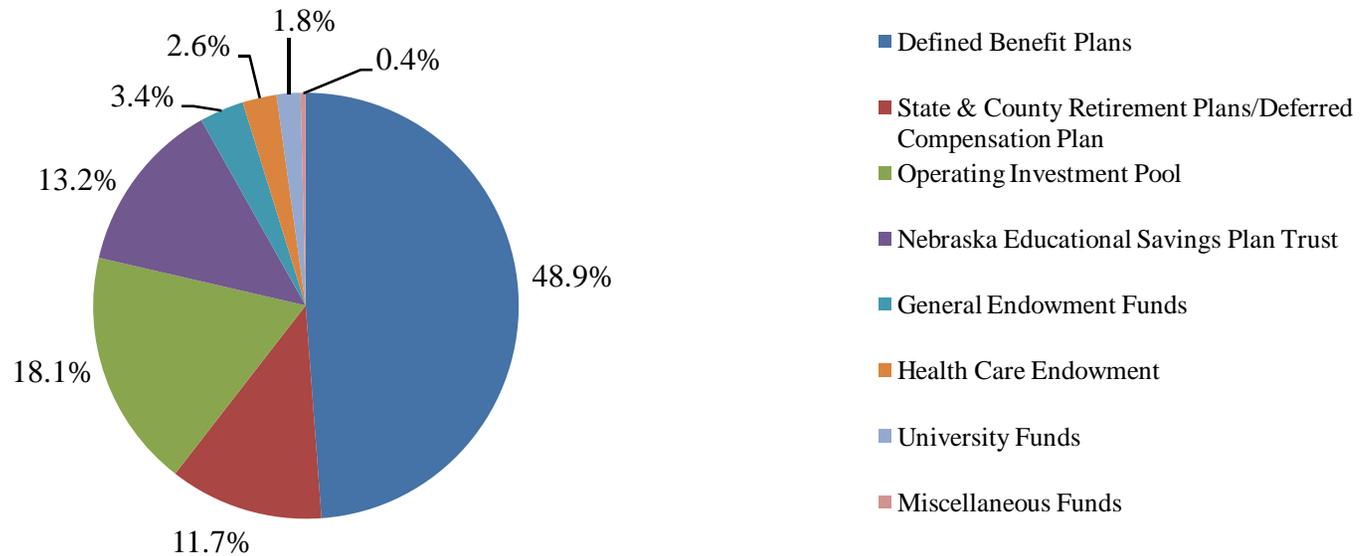
Assistant Deputy Auditor

NEBRASKA INVESTMENT COUNCIL

**STATISTICAL SECTION**

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

**NEBRASKA INVESTMENT COUNCIL  
INVESTMENTS MANAGED AS OF DECEMBER 31, 2007**

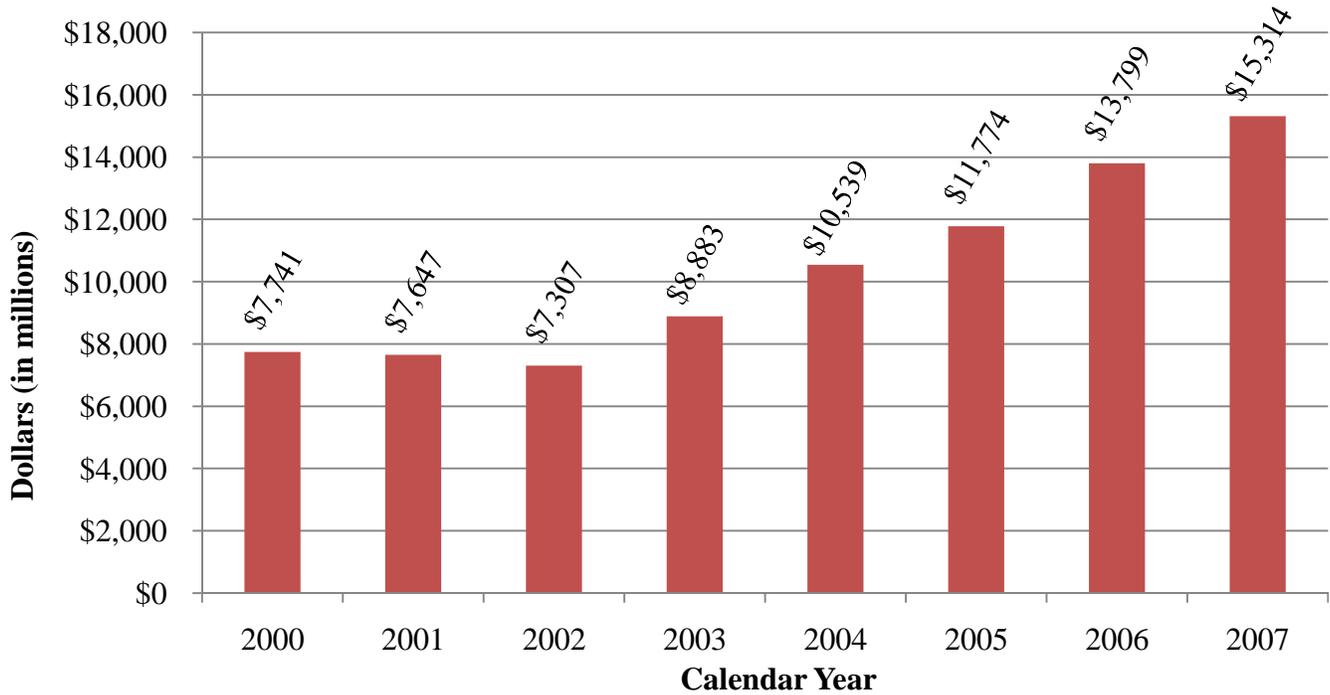


The Nebraska Investment Council (Council) manages the investments of 31 different entities. Numerous organizations may be included in a single entity (ie. the Operating Investment Pool is made up of many separate departments of State government). These 31 entities fall into eight major categories which are displayed above. For all these entities, the Council's responsibilities are primarily related to asset management. The Council does not determine the amount of funds contributed to nor disbursed from the funds it manages. The closing balances as of December 31st for the investments managed by the Council, as well as, expenses for the past eight years are displayed on the following page. For a complete breakdown of asset holdings and expenses for each year see appropriate annual report published by the Council.

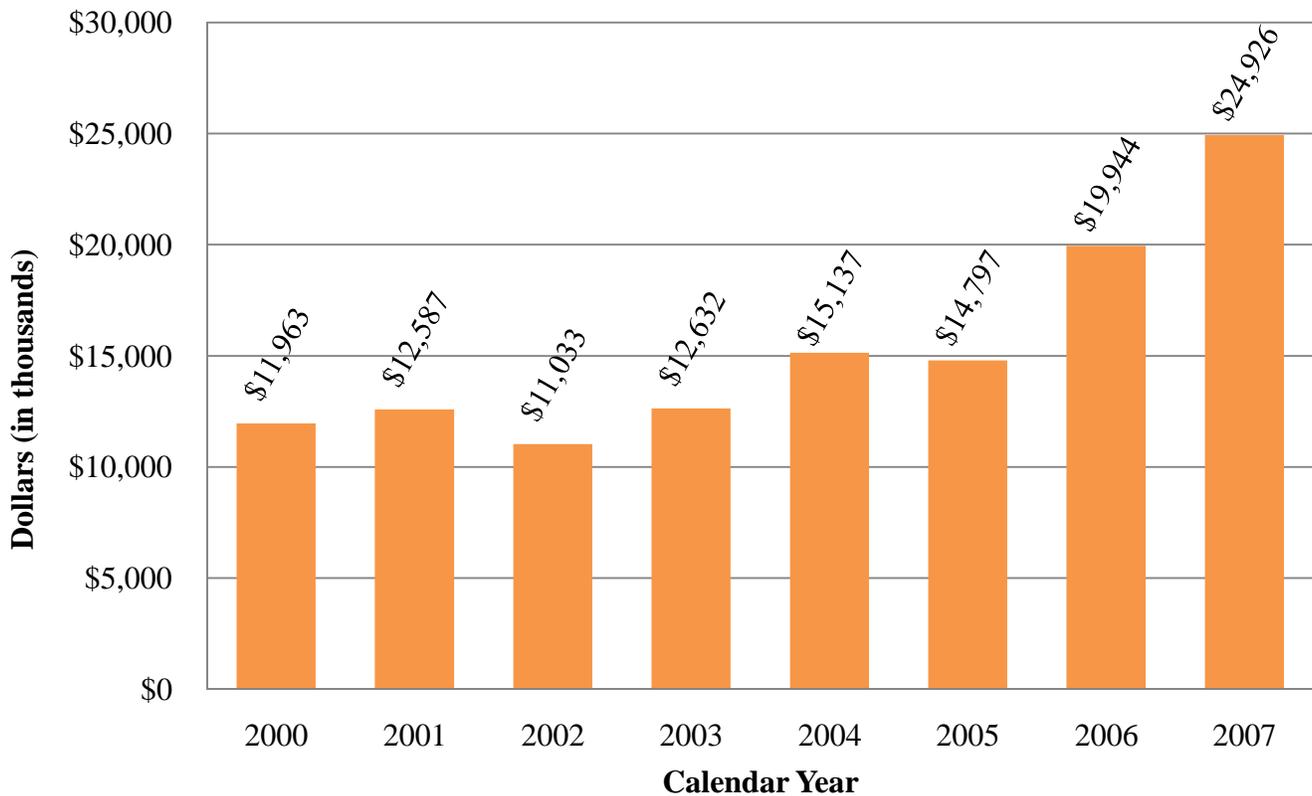
Source: Nebraska Investment Council Calendar Year 2007 Annual Report

NEBRASKA INVESTMENT COUNCIL

**CLOSING INVESTMENT BALANCES AS OF DECEMBER 31ST**



**ANNUAL INVESTMENT AND CUSTODIAN EXPENSES**



Source: Nebraska Investment Council Calendar Year 2007 Annual Report