

**ATTESTATION REPORT
OF THE
NEBRASKA INVESTMENT COUNCIL**

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

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the Auditor of Public Accounts.**

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Issued on July 9, 2014

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The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

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Daniela Myers – Auditor II

Stephanie Abbott – Auditor

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NEBRASKA INVESTMENT COUNCIL

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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 Systems serve as non-voting members.

The Council establishes necessary and proper policies for the investment of 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 agency staff, directs the investment of these funds in accordance with state statutes and the policies of the Council.

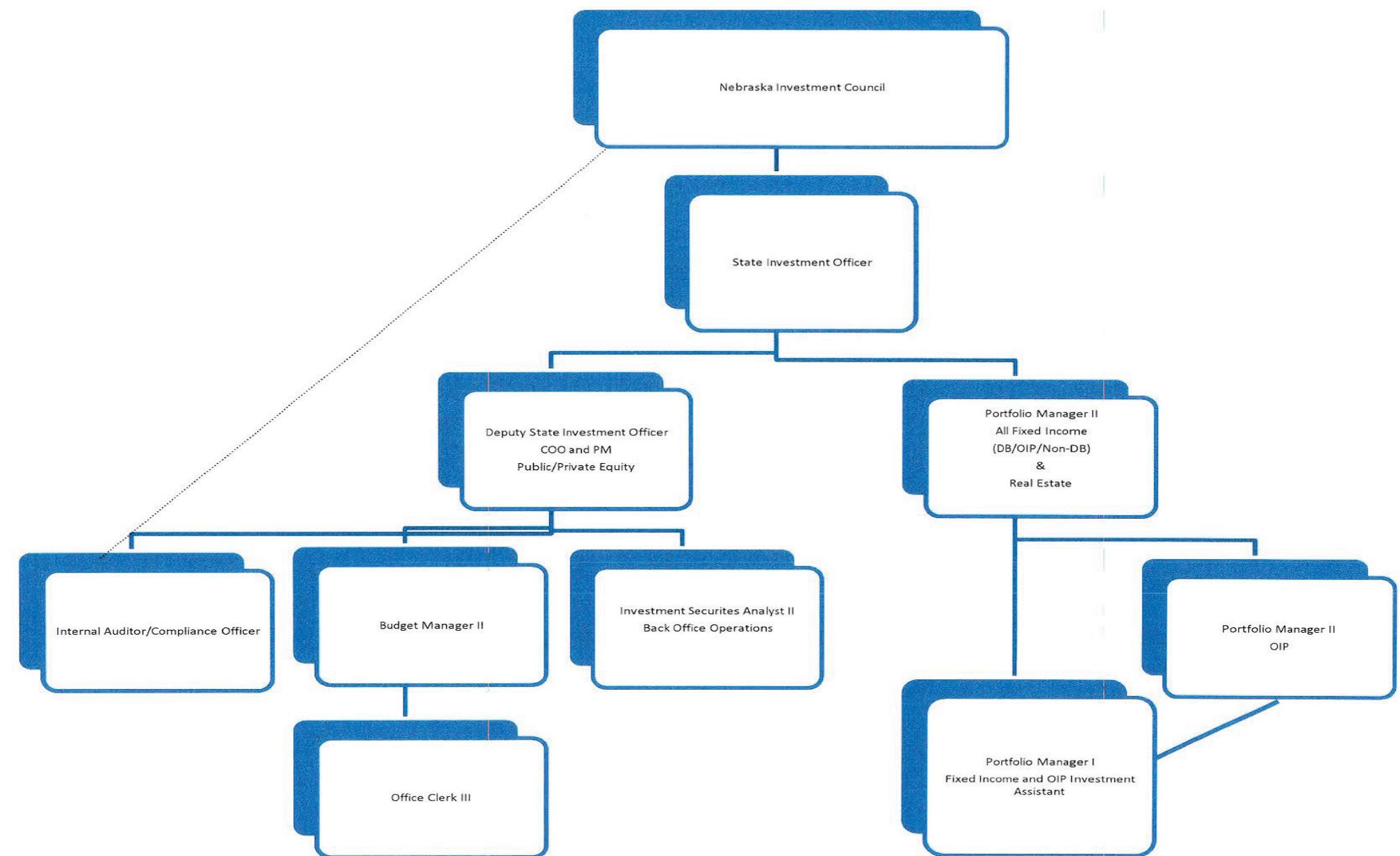
Funds managed include the State's general and cash funds; retirement plans for the State Patrol, Judges, School Employees, State Employees, and County Employees, and the Deferred Compensation Plan assets; and trust funds such as the Permanent School Fund, the Veterans' Aid Fund, the Health Care Trust Fund, and 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



NEBRASKA INVESTMENT COUNCIL

EXIT CONFERENCE

An exit conference was held June 27, 2014, with the Nebraska Investment Council (Council) to discuss the results of our examination. Those in attendance for the Council were:

NAME	TITLE
Jeffrey W. States	State Investment Officer
Joseph P. Jurich	Deputy State Investment Officer
Kathy Dawes	Business Manager
Joyce Schlautman	Internal Auditor
Richard A. DeFusco	Council Member



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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 calendar year ended December 31, 2013. 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.

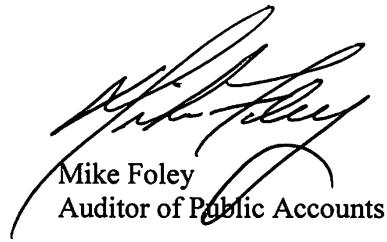
In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Council for the calendar year ended December 31, 2013, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control

over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed no findings that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Nebraska Investment Council, others within the Council, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

July 7, 2014



Mike Foley
Auditor of Public Accounts

NEBRASKA INVESTMENT COUNCIL

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2013

	State Investment Officer's Cash Fund 27510	Operating Pool Distributive Fund 77500	Totals (Memorandum Only)
REVENUES:			
Sales & Charges	\$ 2,694,597	\$ -	\$ 2,694,597
Miscellaneous	22,334	-	22,334
TOTAL REVENUES	2,716,931	-	2,716,931
EXPENDITURES:			
Personal Services	1,049,969	-	1,049,969
Operating	1,078,510	-	1,078,510
Travel	24,050	-	24,050
Capital Outlay	9,107	-	9,107
TOTAL EXPENDITURES	2,161,636	-	2,161,636
Excess (Deficiency) of Revenues Over (Under) Expenditures	555,295	-	555,295
OTHER FINANCING SOURCES (USES):			
Sales of Assets	356	-	356
Operating Transfers In (Note 7)	323,901	-	323,901
TOTAL OTHER FINANCING SOURCES (USES)	324,257	-	324,257
Net Change in Fund Balances	879,552	-	879,552
FUND BALANCES, JANUARY 1, 2013	945,493	-	945,493
FUND BALANCES, DECEMBER 31, 2013	\$ 1,825,045	\$ -	\$ 1,825,045
FUND BALANCES CONSIST OF:			
General Cash (Note 6)	\$ 1,355,475	\$ (16,592,354)	\$ (15,236,879)
Deposits with Vendors	504	-	504
Accounts Receivable Invoiced	542,240	-	542,240
Due to Vendors	(73,174)	-	(73,174)
Investment Pool Interest Receivable (Note 6)	-	16,592,424	16,592,424
Operating Pool Distributions (Note 6)	-	(70)	(70)
TOTAL FUND BALANCES	\$ 1,825,045	\$ -	\$ 1,825,045

The accompanying notes are an integral part of the schedule.

NEBRASKA INVESTMENT COUNCIL

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2013

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.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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 2008), 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 EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed 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 maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned regardless of the timing of related cash flows. State Accounting does not require the Council to record all accounts receivable and related revenues in EnterpriseOne, as such the Council's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payables posted in the general ledger as of December 31, 2013, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2013, **does not** include amounts for goods and services received before December 31, 2013, which had not been posted to the general ledger as of December 31, 2013.

The Council had no accounts receivable at December 31, 2013, that were not included in the schedule. 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 and used by the Council are:

Sales & Charges – Monies drawn down by the Council from the funds held at State Street Bank. These monies are used for the expenditures of the Council.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure account classifications established by State Accounting and 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.

Capital Outlay – Expenditures that result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

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. For the State Investment Officer's Cash Fund 27510, 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 related to the Operating Pool Distributive Fund 77500 see Note 6.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. For the State Investment Officer's Cash Fund 27510, accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. For significant accounting procedures related to the Operating Pool Distributive Fund 77500 see Note 6.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

NEBRASKA INVESTMENT COUNCIL

NOTES TO THE SCHEDULE (Continued)

2. Reporting Entity

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

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, which 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, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

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 more than one year 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.

NEBRASKA INVESTMENT COUNCIL

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

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

Capital asset activity of the Council recorded in the State Accounting System for the calendar year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	<u>\$ 33,516</u>	<u>\$ 9,107</u>	<u>\$ 15,332</u>	<u>\$ 27,291</u>
Less accumulated depreciation for:				
Equipment				<u>6,923</u>
Total capital assets, net of depreciation				<u>\$ 20,368</u>

Note: The accumulated depreciation noted in the table above was calculated in the accounting system through September 30, 2013. Depreciation for October through December 2013 was not run in the accounting system until after the end of the calendar year 2013.

6. 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.

DAS State Accounting records all interest and dividend income received decreasing the OIP Interest Receivable and increasing General Cash in the State's general ledger. All other income, realized gains and losses, and management fees are recorded on EnterpriseOne 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 decreasing the liability and cash accounts. At the end of each month, the liability, receivable, and cash accounts should reconcile to a zero balance.

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	Net Earned	Net Earned	Cash Balance
January 1, 2013	Income Received	Income Distributed	December 31, 2013
\$ (17,146,794)	\$ 74,813,381	\$ (74,258,941)	\$ (16,592,354)

NEBRASKA INVESTMENT COUNCIL

NOTES TO THE SCHEDULE
(Concluded)

7. **Transfers**

Neb. Rev. Stat. § 85-1804 created the Nebraska educational savings plan trust (Trust) and defined the powers and duties of the Council to have the fiduciary responsibility to make all decisions regarding the investment of the Trust. As such, similar to all investments of the State for which the Council has the fiduciary responsibility to invest, the Council assesses an annual fee to cover administrative and operational costs of the Council to carry out its responsibility and are assessed in quarterly payments. However, as the Trust's investments are held outside of the State's investment holdings at State Street Bank, the fees charged to the Trust by the Council are done through an operating transfer. The amount of operating transfers in for the collection of fees assessed by the Council to the Trust for the calendar year ended December 31, 2013, totaled \$323,901.

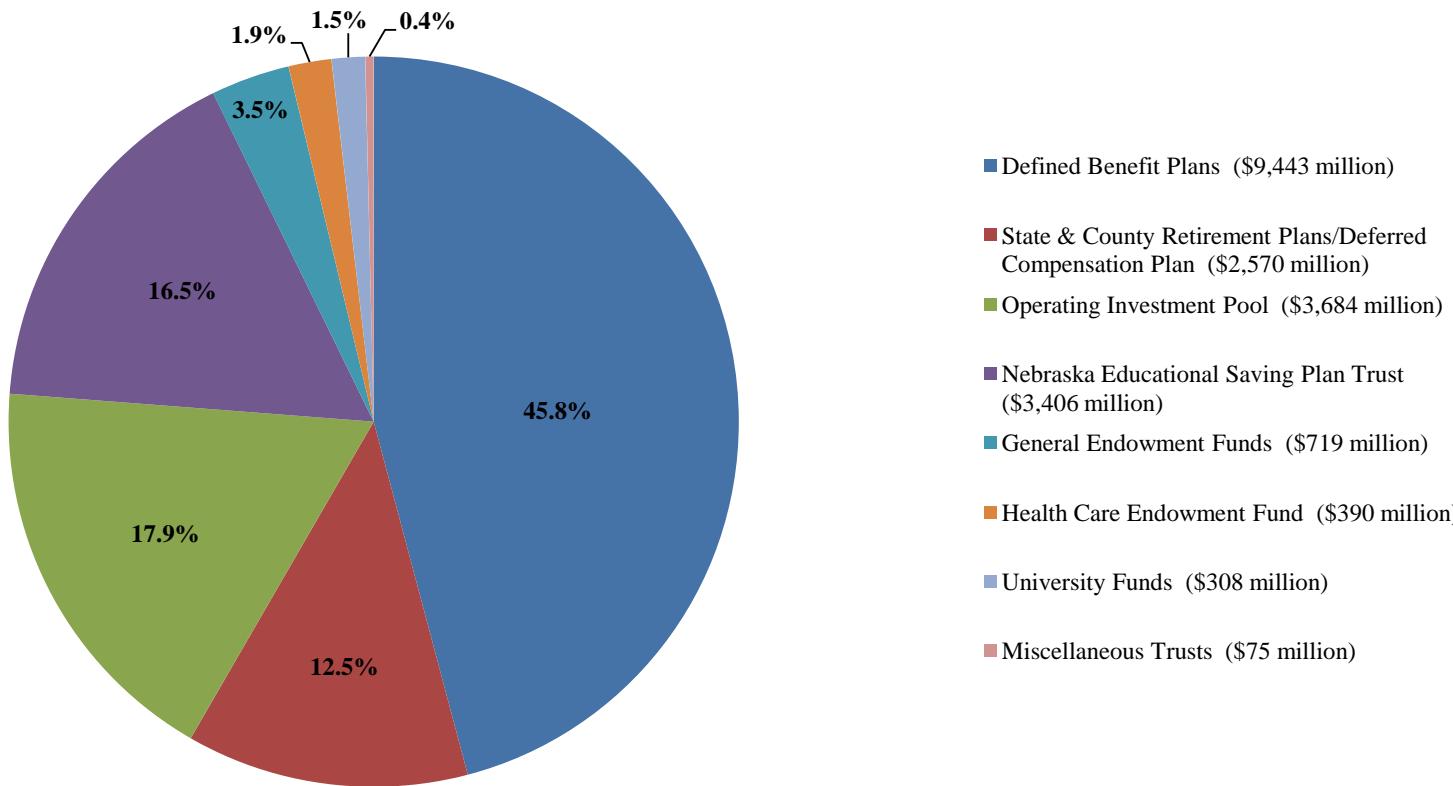
NEBRASKA INVESTMENT COUNCIL

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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, 2013

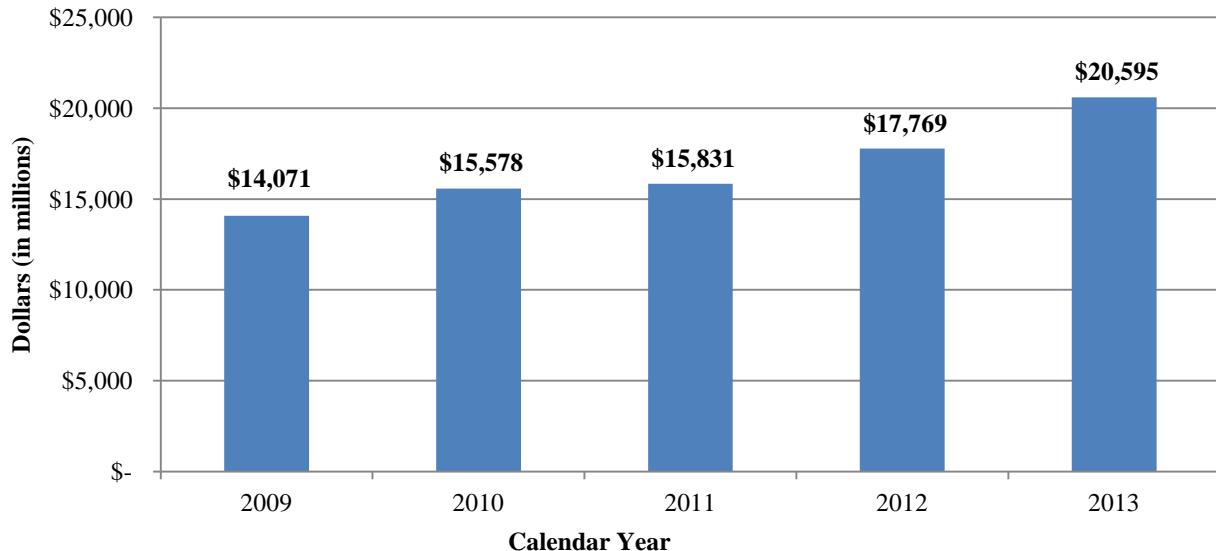


The Nebraska Investment Council (Council) manages the investments of over 30 different entities. Numerous organizations may be included in an entity, such as the many separate departments of State government in the Operating Investment Pool. These entities fall into the eight major categories displayed above. For all these entities, the Council's responsibilities are primarily investment management. It does not determine the amount of funds contributed to nor disbursed from the funds it manages. The closing balances as of December 31 for the investments managed by the Council as well as expenses for the past five years are displayed on the following page. For a complete breakdown of investment holdings and expenses for each year see the appropriate annual report published by the Council.

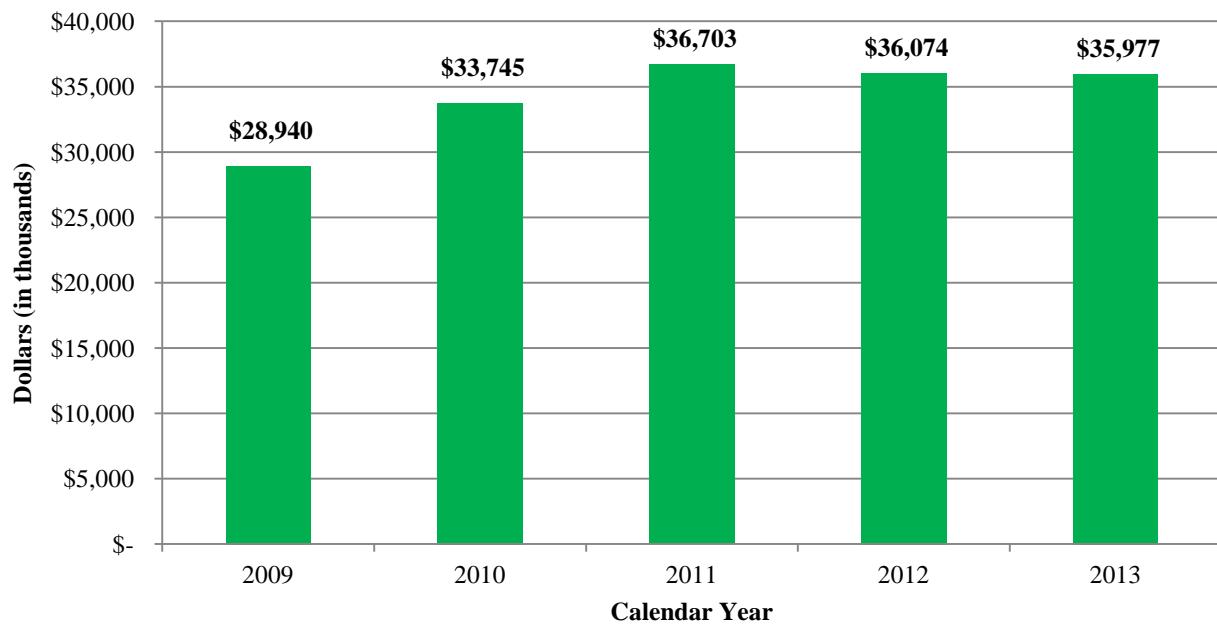
Source: Nebraska Investment Council Calendar Year 2013 Annual Report

NEBRASKA INVESTMENT COUNCIL

Closing Investment Balances as of December 31, 2013



Annual Investment and Custodian Expenses*



*Investment and custodian expenses are paid to various entities, including asset investment managers, the custodial bank (State Street Bank), and the Nebraska Investment Council for the purpose of covering administrative costs associated with investing the State's funds.

Source: Nebraska Investment Council Calendar Year 2013 Annual Report