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December 17, 2025

Ellen Hung, State Investment Officer
Nebraska Investment Council
1526 K Street, Suite 420
Lincoln, Nebraska 68508

Dear Ms. Hung:

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 17, 2025. In planning and performing our audit of the financial statements, we considered the State's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Investment Council (Council) or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Council's management, is intended to improve internal control or result in other operating efficiencies.

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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Draft copies of this management letter were furnished to the Council to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2025.

Endowment Income Distribution

In our prior audit, it was determined that approximately \$17,600,000 in income earned in the endowment funds had not been distributed to various State funds dating back to 2017. The error occurred because two fund managers failed to report income to the prior custodial bank.

The Council distributed approximately \$17,600,000 to various State funds with the third quarter distribution at the end of December 2024 to account for this error. We reviewed the distribution calculation and the support obtained from the two fund managers. The Auditor of Public Accounts (APA) identified the following errors in the calculation of the income to be distributed:

Type of Income/Expense	Amount	Explanation
Foreign Taxes Paid	\$ 298,877	For one fund manager, the spreadsheet used to calculate the income to be distributed for 2023 contained an error, which led to the exclusion of foreign taxes paid. These taxes paid would reduce the income to be distributed; however, since the amounts were not properly included in the calculation, \$298,877 was distributed but should not have been.
Foreign Taxes Paid	\$ 3,886	For the other fund manager, foreign taxes paid were excluded from the calculation from 2021 to 2023, presumably because they were not included in the manager's financial records prior to that time. These taxes paid would reduce the income to be distributed; however, since the amounts were not properly included in the calculation, \$3,886 was distributed but should not have been.
Total	\$ 302,763	

Our testing also revealed other issues related to the income reported by the managers that should be resolved to ensure the accuracy of the income distribution calculation.

It is important to remember that the Council does not distribute capital gains, whether realized or unrealized. In Op. Att'y Gen. No. 07003 (February 8, 2007), the Nebraska Attorney General clarified the distinction between income that should be distributed and income that should be retained, as follows:

Generally, investment receipts or amounts allocable to income include interest, dividends, and other income such as rent on lands. Investment receipts allocable to principal include premiums and capital gains, whether realized or unrealized. Receipts allocable to principal ordinarily are reinvested as principal and not distributable in the absence of constitutional or statutory authorization for that purpose.

The following income categories warrant further review by the Council:

Type of Income/Expense	Amount	Explanation
Foreign Transactions - Gross Income from All Sources	\$ 7,900,254	One fund manager provided financial information back to 2017. In three of the years between 2017 and 2023, the manager reported under its "Foreign Transactions" gross income from all sources, totaling \$7.9 million. This income was not included in the distribution. The Council's staff stated that they discussed the distribution process including noting that it should not include realized gains or losses with the fund manager. Per the Council staff, the manager explained the items that were considered income and expenses from the financial information provided, and that they believe the "Foreign Transactions" should not be distributed income. However, Council staff did not maintain documentation from the manager that this source of income should not be included in the distribution. Therefore, the APA was unable to determine whether these monies should have been distributed.

Type of Income/Expense	Amount	Explanation
Ordinary Income	\$ 536,376	One fund manager provided financial information showing \$536,376 in an income category called "Ordinary Income from PFICS," which was included in the Detail of the Net Ordinary Income from Business Activity Before Dividend Income. The Council staff did not include this amount in the income distribution. Upon inquiry, Council staff could not explain this income category. The fund manager then explained to Council staff that a portion of the income could be attributable to capital gains – which is not distributed. The Council staff did not obtain documentation from the manager to support the explanation or to determine the amount that might be capital gains.
Net Swap Income (Loss)	\$ 20,246	One fund manager had \$20,246 from 2021 to 2023 that was not included in the amount to be distributed. Council staff explained that the fund manager indicated this line item could include realized gains and losses, which is not distributable. Therefore, Council staff chose to exclude the entire amount to be conservative. Council staff were unable to provide documentation from the fund manager to support the explanation or to determine how much might be capital gains and losses.
Total	\$ 8,456,876	

A proper system of internal control requires procedures and documentation to ensure the income earned on endowment funds is properly calculated and distributed and does not include capital gains.

Without such procedures, there is an increased risk for loss of endowment principal.

We recommend the Council implement procedures to ensure the income earned on endowments is calculated and distributed properly. Such procedures could include a secondary review of the calculation by Council staff and the maintenance of documentation from the fund managers explaining the various income types reported and whether such amounts include capital gains.

Council Response: The Council acknowledges the error regarding foreign taxes and ordinary income and confirms that the numbers were re-verified and error corrected in 2025.

The Council acknowledges the importance of understanding the gross income and expense figures, including the net swap income (loss) reported on managers' K-1. Staff have been working with the investment managers to obtain clarity regarding the K-1. The process to confirm and document income vs capital gains with the managers will include a secondary review.

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It should be noted that this letter is critical in nature, as it contains only our comment and recommendation and does not include our observations on any strengths of the Council.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to 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* and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Council and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Council.

The purpose of this letter is solely 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 effectiveness of the State's internal control over financial reporting or compliance.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Council, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Kris Kucera". The signature is written in a cursive, flowing style.

Kris Kucera, CPA, CFE
Assistant Deputy Auditor