State Of Nebraska
Department of Environmental Quality
Department of Health & Human Services
Division of Public Health

Drinking Water State Revolving Fund Annual Report

State Fiscal Year 2011

October 2011

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Biennial reports are a requirement of the Environmental Protection Agency (EPA) for the Drinking Water State Revolving Loan Program (DWSRF). Nebraska has provided annual reports to EPA in lieu of the biennial report requirement. The program is also required to make an annual report to the Governor and Legislature. This annual report is for the SFY2011 (July 1, 2010 through June 30, 2011) accounting period. This report is a combined effort of the Nebraska Department of Environmental Quality and the Nebraska Department of Health and Human Services-Division of Public Health (NDHHS-DPH).

The Nebraska Drinking Water State Revolving Loan Fund Annual Report for SFY2011 describes the state's efforts to meet the goals and objectives of the DWSRF. The projects identified in the Intended Use Plan (IUP), the actual use of funds, and the financial position of the DWSRF are itemized in this report. The Financial Schedules Section along with the notes to the financial schedules is the report focus, with the Program Section serving to provide supplemental information tying back to the IUP. An effort has been made to avoid duplication of the information provided in the program section with the information provided in the financial schedules.

The DWSRF program allocated a total of $167.6 million plus forgiveness of $20.5 million to 161 Public Water System (PWS) projects beginning with the program’s inception through June 30, 2011. The FY2010 EPA capitalization grant was received on September 22, 2010. The Nebraska Investment Finance Authority (NIFA) match bonds for the FY2010 DWSRF capitalization grant were provided on December 2, 2010. The FY2011 EPA capitalization grant is scheduled for September, 2011. The match for the FY2011 capitalization grant will be provided through the Administration Cash Fund and Special Bond Reserve cash freed up through a July 1, 2011 Bond Redemption.

I. FINANCIAL SCHEDULES SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

BACKGROUND

The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. Neb. Rev. Stat. §§ 71-5314 to 71-5327 created the Drinking Water State Revolving Fund Act. The Federal Safe Drinking Water Act and State statutes established the Drinking Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low interest loans to finance the entire cost of qualified projects. The Program provides a flexible financing source which can be used for a variety of projects. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities have 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2011, the EPA had awarded $121.9 million in capitalization grants to the State, plus $19.5 million in American Recovery and Reinvestment Act funds. The award of this $121.9 million required the State to contribute approximately $22 million in matching funds. The State provided appropriations or cash match to contribute just under $4 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds of $5,530,000 in June 2000, $1,815,000 in March 2001, $2,000,000 in December 2002, $1,700,000 in June 2003, $1,890,000 in September 2004, $1,920,000 in August 2005, $1,915,000 in June 2006, $1,920,000 in September 2007, $1,965,000 in October 2008, and $3,110,000 in December 2010.

The Program is administered by the Nebraska Department of Environmental Quality (Department) and the Nebraska Department of Health and Human Services – Division of Public Health. The Department's primary activities with regard to the Program include the making of loans for facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department and the Program's Intended Use Plan. The Nebraska Department of Health and Human Services – Division of Public Health sets the funding priorities.

A. MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program’s (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2011. This analysis has been prepared by management of the Department, and is intended to be read in conjunction with the Program’s financial statements and related footnotes that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program’s basic financial statements. The Program’s basic financial statements include: 1) Balance Sheet, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Balance Sheet presents information on all of the Program’s assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Program’s net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents the Program’s flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the Program’s cash receipts and payments during the year.

The Notes to the Financial Statements are an integral part of the financial statements and provide information that is essential to a full understanding of the data provided in the financial statements.

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Assets

For the fiscal year ended June 30, 2011, net assets of the Program increased by 5%. Revenues for the Program increased 16% while expenses decreased by 60%.

NET ASSETS

	2011	2010	% Change
Current Assets	$ 46,261,411	$ 48,078,694	-4%
Noncurrent Assets	90,185,920	80,611,326	12%
Total Assets	136,447,331	128,690,020	6%
Current Liabilities	1,934,641	1,619,054	19%
Noncurrent Liabilities	14,635,000	13,110,000	12%
Total Liabilities	16,569,641	14,729,054	12%
Net Assets:			
Restricted	2,255,843	1,968,875	15%
Unrestricted	117,621,848	111,992,091	5%
Total Net Assets	$ 119,877,691	$ 113,960,966	5%

	2011	2010	% Change
Loan Fees Administration	$ 906,554	$ 732,680	24%
Interest	3,927,758	3,440,707	14%
Total Operating Revenues	4,834,312	4,173,387	16%
Administration	1,682,293	2,583,350	-35%
Bond Expenses	768,585	660,133	16%
ARRA Principal Forgiveness	2,140,403	8,269,668	100%
Total Operating Expenses	4,591,281	11,513,151	-60%
Operating Income	243,031	(7,339,764)	103%
Capital Federal Grants	2,397,910	14,634,846	-84%
Capital Contributions ARRA Grants	3,275,783	15,503,706	100%
Change in Net Assets	5,916,724	22,798,788	-74%
Net Assets, Beginning of Year	113,960,966	91,162,178	25%
Net Assets, End of Year	$119,877,960	$ 113,960,966	5%

The most significant changes from the fiscal year ended June 30, 2010, to the fiscal year ended June 30, 2011, were the Loan Fees Administration and Administration balances, Change in Net Assets and the amount received from Capital Contributions. Past funding received through the American Recovery and Reinvestment Act (ARRA) was disbursed through numerous community loans. As expected, those disbursements dropped off this past fiscal year as the ARRA program neared completion. With the ARRA program winding down, administration expenses were also reduced but due to the infusion of that funding the collection of loan fees increased.

Federal funds will vary each year depending on the size of each draw, the timing of each draw, the number of communities applying for loans, and the number of loans successfully processed. Changes are inherent in the Drinking Water program and are expected when draws are based on community requests.

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline and Nebraska's economy has and will likely continue to impact the future net revenues of the State. Tax revenues continue to fall short of projections. How the Program's revenue will be affected by the current national economic decline and market changes is unknown.

DEBT ADMINISTRATION

Long-Term Debt

The Drinking Water State Revolving Fund had long-term debt activity during the fiscal year as shown above in the line titled Noncurrent Liabilities in the Net Assets section. See the Notes to the Financial Statements for more detailed information on the Bonds Payable, which represents the Fund's long-term debt activity for the year.

FISCAL YEAR SUMMARY

The $13.573 million that the Nebraska State Drinking Water Revolving Fund Program received for funding of upgrades to public water systems was combined with $20.1 million in existing funds from the Drinking Water State Revolving Fund. Funding is administered by the Department of Health and Human Services (DHHS) Division of Public Health to provide financial assistance to communities.

Twenty percent of the program funding was made available in the form of principal forgiveness (i.e., similar to grants) to communities. The remaining 80 percent is issued to communities as low-interest loans at rates from 3 to 3.3 percent. The Federal Fiscal Year 2010 appropriation requires the State to use at least 30% of the funds provided by this grant to provide additional subsidization in the form of principal forgiveness.

DHHS ranked the state's public water supply needs using the fund's established ranking system, with some modifications made to direct funds to projects that were further along in the planning stages. The fiscal appropriation requires 20 percent of the funding to be reserved for water efficiency projects, such as water meter installation.

B. BALANCE SHEET-UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET - UNAUDITED
June 30, 2011

		Enterprise Fund
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents:	$	24,061,483
Amounts Held by Trustee		16,232,572
Interest Receivable		50,950
Loan Interest Receivable		(5,895)
Administrative Fees Receivable		(3,423)
Loans Receivable		5,925,724
TOTAL CURRENT ASSETS	$	46,261,411
NON-CURRENT ASSETS		
Loans Receivable		90,185,920
Long Term Investments		-
TOTAL NON-CURRENT ASSETS	$	90,185,920
TOTAL ASSETS	$	136,447,331
LIABILITIES		
CURRENT LIABILITIES		
Accrued Bond Interest Payable		349,641
Bonds Payable - Current		1,585,000
TOTAL CURRENT LIABILITIES	$	1,934,641
NON-CURRENT LIABILITIES		
Bonds Payable – Long Term		14,635,000
TOTAL NON-CURRENT LIABILITIES	$	14,635,000
TOTAL LIABILITIES	$	16,569,641
NET ASSETS		
Restricted for Bond Payments		2,255,843
Unrestricted		117,621,848
TOTAL NET ASSETS	$	119,877,690
TOTAL LIABILITIES AND NET ASSETS	$	136,447,331

The accompanying notes are an integral part of the financial statements.

C. STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - UNAUDITED
For the Year Ended June 30, 2011

		Enterprise Fund
OPERATING REVENUES:		
Loan Fees Administration	$	906,355
Interest on Loans		2,714,565
Interest on Fund Balance – Trustee		448,479
Interest on Fund Balance - State Operating Pool		764,714
Fines Forfeits & Penalties		199
TOTAL OPERATING REVENUE	$	4,834,312
OPERATING EXPENSES:		
Administration (Note 9)		414,694
4% Administration		125,000
15% Source Water Assessment Program		532,766
2% Technical Assistance to Small Systems		217,994
10% Public Water Supply System		391,839
30% Loan Forgiveness		856,655
50% Principal Forgiveness ARRA		1,283,748
Bond Rebate Fee Expense		-
Interest Expense – State Match Bonds		660,152
Underwriters Discount		39,435
Cost of Bond Issuance		68,999
TOTAL OPERATING EXPENSES	$	4,591,281
OPERATING INCOME	$	243,031
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS		2,397,910
CAPITAL CONTRIBUTIONS - ARRA FEDERAL GRANTS		3,275,783
CHANGE IN NET ASSETS	$	5,916,724
TOTAL NET ASSETS, BEGINNING OF YEAR		113,960,966
TOTAL NET ASSETS, END OF YEAR	$	119,877,690

The accompanying notes are an integral part of the financial statements.

D. STATEMENT OF CASH FLOWS-UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS - UNAUDITED
For the Year Ended June 30, 2011

		Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers	$	10,179,788
Interest on Investments		1,213,173
Payments to Borrowers		(12,828,939)
Payments to Borrowers ARRA		(1,992,035)
Payments for Administration		(552,795)
15% Source Water Assessment Program		(532,766)
2% Technical Assistance to Small Systems		(217,994)
10% Public Water Supply System		(391,839)
Loan Forgiveness		(856,655)
Principal Forgiveness ARRA		(1,283,748)
Bond Principal Payments		(1,295,000)
Bond Interest Payments		(634,566)
Bond Rebate		-
Bond Issued		3,070,565
Cost of Bond Issuance		(68,999)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	(6,191,809)
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:		
Funds Received From the Environmental Protection Agency		2,397,910
ARRA Funds Received From the Environmental Protection Agency		3,275,783
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	$	5,673,693
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		40,812,171
CASH AND CASH EQUIVALENTS, END OF YEAR	$	40,294,055
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$	243,031
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
(Increase)/Decrease in Loans Receivable		(8,333,446)
(Increase)/Decrease in Interest Receivable		48,700
(Increase)/Decrease in Loan Interest Receivable		5,895
(Increase)/Decrease in Admin Fees Receivable		3,423
Increase/(Decrease) in Bonds Payable		1,815,000
Increase/(Decrease) in Accrued Interest on Bonds		25,587
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	(6,191,809)

The accompanying notes are an integral part of the financial statements.

E. NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the Nebraska Department of Environmental Quality (Department) Drinking Water State Revolving Fund Program (Program) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS) and the Trustee (Wells Fargo Bank, Iowa) for the State match bond accounts.

B. Reporting Entity

The Drinking Water State Revolving Fund Program is a program within the Department and is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act of the State of Nebraska. The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Program's management has considered all potential component units of the Program for which it is financially accountable, and other organizations which are fiscally dependent on the Program, or the significance of their relationship with the Program are such that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The Program on the State accounting system includes the following funds as identified in the Drinking Water State Revolving Fund Act:

- Drinking Water Facilities Funds – General Fund 10000, Federal Funds 48416, 48417 and 48418, and Bond Funds 68480, 68481, 68482, 68483 and 68484.
- Drinking Water Administration Fund – Cash Fund 28630

These funds are used to account for revenues and expenses for loans and administrative expenses of the Program.

The activity of these ten State of Nebraska funds have been combined and reported as an enterprise fund, which under governmental GAAP is a proprietary fund type. This fund type reflects transactions used to account for those operations that are financed and operated in a manner similar to a private business. The accounting for the Program's transactions in this manner is a requirement of the Environmental Protection Agency (EPA) as they and the Department have decided that the determination of revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA that the Program will be available in perpetuity as intended.

This fund classification differs from the classification used in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). The CAFR classifies the Cash funds, Federal funds, and Bond funds as Special Revenue funds because the major source of revenue is Federal assistance.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. An enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Enterprise funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In reporting the financial activity of its enterprise fund, the Program's management applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months, however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2011, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and Cash equivalents 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 these investments is allocated to funds based on their percentage of the investment pool.

Amounts Held by Trustee are considered cash equivalents due to their liquid nature.

F. Loans Receivables

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Clean Water Program is funded, on average, 83.33% from federal capitalization grants and 16.67% from State matching funds, other than American Recovery and Reinvestment Act (ARRA) funds. ARRA funds do not require State matching funds. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced, and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and accrued interest during the project period. The interest rates on loans range from 2.0% to 4.3% and the terms are between 5 to 20 years. Disadvantaged communities may have up to 30 years to repay. The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2011, which is collectible in fiscal year 2012.

No provisions were made for uncollectible accounts as all loans were current, and management believed all loans would be repaid according to the loan terms. There was a provision for the Program to intercept State aid to a community in default of its loan.

G. Restricted Net Assets

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources, as they are needed. Net Assets are reported as restricted when they are held in a separate account that can be used to pay debt principal and interest only and cannot be used to pay other current liabilities.

H. 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 assets and liabilities at fiscal year end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash in State Treasury and Amounts Held by Trustee

Cash in State Treasury as reported on the balance sheet is under the control of the Nebraska State Treasurer or other administrative bodies as determined by law. Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio including investment policies, risks, and types of investments can be found in the State of Nebraska's CAFR for the fiscal year ended June 30, 2011. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Drinking Water State Revolving Fund Program were designated for investment during fiscal year 2011. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee. The Nebraska Investment finance Authority (NIFA) (the "Issuer") issues revenue bonds, the proceeds which are used by the Department to provide the 20% match requirements for the Department's Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank Iowa, National Association (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Bond Indenture. At June 30, 2011, the amount held by the Trustee of $16,232,572 was considered cash and cash equivalents and was stated at fair value, except for the amounts invested in Guaranteed Investment Contracts (GICs), where no readily ascertainable fair value was available. For this investment, the Program manager received an estimate of fair value from the Trustee. The amount held by the Trustee consisted of the following:

	Fair Value
Cash	$ 70,090
Money Market Account	10,481,251
Guaranteed Investment Contracts	
(GICs) in CDC Funding Corporation	5,681,231
TOTAL	$ 16,232,572

The amounts shown as cash and as a money market account above are deposits as defined by GASB. As such, those deposits have custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Program's deposits may be lost. Of the $10,551,341 in deposits held by the Trustee, $250,000 was covered by FDIC insurance and $10,301,341 was uninsured and uncollateralized during and at the end of the fiscal year ended June 30, 2011, and thus exposed to custodial credit risk. The Program does not have a custodial credit risk policy for deposits.

The Program monies identified in this section are held and invested by the Trustee in its capacity as trustee for the bonds as specified in the Master Trust Indenture Section 5.07 dated as of June 1, 2000. That document defines "Investment Obligations" as:

(a) Direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America;
(b) Bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the Untied States of America;
(c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a), (b), or (e) of this definition , or a combination thereof;
(d) Money market funds or similar fund which invests exclusively in obligations described in clause (a), (b), or (e) of this definition, or a combination thereof;
(e) Bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority of body or instrumentality thereof which constitute obligations described in Section 103(a) of the Code which have a fixed par value and a fixed amount due at maturity and on call dates and are either rated "MIG 1" by Moody's and rated "SP-1+" by Standard & Poor's for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor's and by Moody's;
(f) Any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under laws of any state, or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bond, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;
(g) Investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a stat banking association which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United State branch or agency of a foreign bank, which foreign bank consents to in personam jurisdiction and which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds; or
(h) Obligations of an insurance company which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds.

The amounts held by the Trustee in GICs were investments as defined by GASB. The Trustee, in accordance with the Series 2000A Supplemental Bond Indenture invests funds in a private debt obligations fund, which is considered a debt security. This debt security has the following risks:

- Credit Risk – Credit Risk is a risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization. The GIC fund was unrated by Standard & Poor's Rating Group and Moody's Investors Service Inc.

- Custodial Credit Risk of Investments – Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.

- Concentration of Credit Risk – when investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 100% of its total investments in the GIC fund.

The Program did not have a custodial credit risk policy for debt securities.

3. Loans Receivable

As of June 30, 2011, the Program had 120 outstanding balances totaling $96,111,644. The outstanding balances of the ten communities with the largest loan balances, which represent 59.2% of the total loans, were as follows:

City	**Outstanding Balance**
Kearney	$9,926,708
McCook	7,909,546
North Platte	6,510,415
Gering	6,194,471
Sidney	5.801,711
Omaha	5,585,946
Auburn	4,772,585
Alliance	3,981,810
Blair	3.606.484
Beaver Lake Association	2,568,372
TOTAL	**$56,858,048**

4. Bonds Payable

The State has entered into a special financing arrangement with NIFA, and independent instrumentality of the State exercising essential public functions, to provide matching funds for the State's Drinking Water Program. NIFA issues the bonds and the proceeds are held by the Trustee until they are needed by the Program for loan purposes. The Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, 2008A and 2010A Bonds are revenue bonds. The Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, 2008A and 2010A Bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the trust Estate. Neither the faith and credit nor the taxing power of the State is pledged for the payment of the principal of, premium, if any, or the interest on the Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, 2008A and 2010A Bonds. The current bonds payable amount was determined using the amount of bond principal to be retired in fiscal year 2011. Bonds payable for the fiscal year ended June 30, 2011, is as follows:

	Beginning Balance	**Additions**	**Retirement**	**Ending Balance**	**Current Portion**
Bonds Payable	$14,405,000	$3,110,000	$1,295,000	$16,220,000	1,585,000

Bonds Payable at June 30, 2011, consists of the following:

Series	**Original Issue**	**Retirements**	**2011 Balance**	**Interest Rate**	**Final Maturity Date**
2000A	$5,530,000	$2,850,000	$2,680,000	4.8-5.7%	July 1, 2015
2001A	1,815,000	920,000	895,000	3.9-5.15%	Jan. 1, 2016
2002A	2,000,000	920,000	1,080,000	1.8-4.6%	Jan. 1, 2017
2003A	1,700,000	700,000	1,000,000	1.3-3.8%	Jan. 1, 2018
2004A	1,890,000	640,000	1,250,000	1.6-4.75%	July 1, 2019
2005A	1,920,000	515,000	1,405,000	2.75-4.2%	July 1, 2020
2006A	1,915,000	450,000	1,465,000	3.6-4.3%	Jan. 1, 2021
2007A	1,920,000	330,000	1,590,000	3.5-4.35%	Jan. 1, 2022
2008A	1,965,000	220,000	1,745,000	2.75-5.0%	Jan 1, 2023
2010A	3,110,000	-	3,110,000	.9-3.3%	July 1, 2025

The 2000A Series Bonds were issued June 29, 2000, the 2001A Series Bonds were issued March 28, 2001, the 2002A Series Bonds were issued December 19, 2002, the 2003A Series Bonds were issued June 19, 2003, the 2004A Series Bonds were issued September 16, 2004, the 2005A Series Bonds were issued August 15, 2005, the Series 2006A Bonds were issued June 8, 2006, the Series 2007A Bonds were issued September 28, 2007, the Series 2008A Bonds were issued October 3, 2008, and the Series 2010A Bonds were issued November 12, 2010. Bonds mature at various intervals through July 2025. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	**Principal**	**Interest**	**Total**
2012	1,360,000	677,196	2,037,196
2013	1,605,000	610,219	2,215,219
2014	1,665,000	545,453	2,210,453
2015	1,715,000	475,686	2,190,686
2016	2,530,000	385,574	2,915,574
2017-2020	4,660,000	866,108	5,526,108
2021-2025	2,685,000	268,828	2,953,828

TOTAL	$16,220,000	$3,829,064	$20,049,064

5. **Net Assets**

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the capitalization grants awarded, drawn, and the remaining balance as of June 30, 2011. The year column relates directly to the grant amount column and represents the fiscal year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2011, and may have been drawn over multiple years.

Year	Grant Amount	Amount Drawn	Balance
1997	$12,824,000	$12,824,000	-
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,144,075	84,925
2008	8,146,000	7,867,123	278,877
2009 – ARRA	19,500,000	18,779,489	720,511
2009	8,146,000	6,604,589	1,541,411
2010	13,573,000	636,604	12,936,396
TOTAL	$141,423,726	$125,861,606	$15,562,120

The 2010 grant was delayed and was not awarded until October 22, 2010, after the end of State fiscal year 2010. Although the 2010 grant was delayed, the grant award allowed the Agency to charge expenditures for projects to the grant effective date of October 1, 2010.

The following is a summary of changes in the total contributed capital.

Contributed Capital July 1, 2010	$	124,145,749
Contributed During the Year:		
Funds From EPA		2,397,910
Funds From ARRA		3,275,783
Contributed Capital June 30, 2011	$	129,819,442

Also included in the Contributed Capital are a total of all general funds received by the Program from the Legislature of the State of Nebraska. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed $1,162,318 and $1,166,518 in the fiscal years ended June 30, 1998, and 1999, respectively. The State also used $1,629,000 of Administrative Cash Funds to provide the match for the 2009 capitalization grant.

6. **Loan Fees Administration**

The reported amount comes from a fee charged to loan recipients each year based on the amount of the loan outstanding. The fee ranged from .5% to 1% per annum and was collected semi-annually.

7. Interest on Fund Balance - State Operating Investment Pool

The reported amount represents the earnings the Program has received from idle funds invested by the Nebraska State Treasurer with the State's Investment Council. Interest is credited on approximately the twenty-fifth day of each subsequent month.

8. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Program's principal ongoing operations. The principal operating revenue of the Program is the Loan Fees Administration. Interest revenues are also operating revenues since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and small town grants. Interest expenses are also operating expenses since making loans is the primary purpose of the Program.

9. Operating Expenses

The Operating Expenses of the Drinking Water State Revolving Fund Program are classified for financial reporting purposes, into seven categories. There are found set-aside activities established under §1452 of the Safe Drinking Water Act. The four set-aside activities are:

- 4% Administration
- 15% Source Water Assessment Program
- 2% Technical Assistance to Small Systems
- 10% Public Water Supply System

The Nebraska Department of Health and Human Services is provided funding under the following set-asides: Administration, Public Water Supply System, Small Systems Technical Assistance, ad Source Water Assessment Program. A memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services to provide support to the Program.

All are required to be federally funded. State match dollars can only be sued for the purpose of providing loan to owners of Public Water supply systems. Other significant categories of expenses are 30% Loan forgiveness, and Interest Expense-State Match Bonds.

Following is an explanation of these categories:

4% Administration

A state may use up to 4 percent of the funds allotted to it for the reasonable costs of administering the program and providing technical assistance. These costs may include such activities as issuing debt; start up costs; audit costs; financial management; legal consulting fees; development of IUP (Intended Use Plan) and priority ranking system; development of affordability criteria; and costs of support services provided by other state agencies. If the state does not obligate the entire 4 percent for administrative costs in one year, it can bank the excess balance and use it for administrative costs in later years.

15% Source Water Assessment Program

Identified in Federal regulations as local assistance and other state programs, a state may use up to 15% of the capitalization grant amount for specified uses as follows:

- Assistance to a public water system to acquire land or a conservation easement for source water protection purposes;
- Assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;

- Provide funding to delineate and assess source water protection areas;
- To support the establishment and implementation of wellhead protection programs; and
- To provide funding to a Public Water system to implement technical and/or financial assistance under the capacity development strategy

2% Technical Assistance to Small Systems

A state may use up to 2 percent of its allotment to provide technical assistance to public water systems serving 10,000 people or less. If the state does not use the entire 2 percent for these activities against a given allotment, it can bank the excess balance and use it for the same activities in later years. A state may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A state may use up to 10 percent of its allotment to:

- Administer the State Public Water Supply system program;
- Administer or provide technical assistance through source water protection programs, which includes the Class V portion of the Underground Injection Control Program;
- Develop and implement a capacity development strategy; and
- Develop and implement an operator certification program

30% Loan forgiveness

The amount of expenses reported as Loan Forgiveness is the amount the State forgave loans to communities meeting the definition “disadvantaged” or, which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year’s capitalization grant cannot exceed 30 percent o the amount of the capitalization grant for that year.

ARRA provided additional funding in the form of principal forgiveness; however, the grant had different forgiveness regulations than regular base Drinking Water loans. ARRA requires the State to use at least 50 percent of the funds provided by this grant to provide additional subsidization in the form of principal forgiveness.

Interest Expense – State Match Bonds

The amount is interest paid to bond holders at the time bond principal was retired during the fiscal year.

10. State Employees’ Retirement Plan (Plan)

.

The single-employer plan became effective by statute on January 1, 1964. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on or after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska legislature.

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees, who have attained the age of twenty years, may exercise the option to begin participation in the retirement system.

Contribution. Per statute, each member contributes 4.8% of his or her monthly compensation. The Department matches the member’s contribution at a rate of 156%. The employee’s and employer’s contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is fully vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the Plan.

Defined Contribution Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single life annuity with five year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the Plan which are actuarially equivalent to the normal form, including the option of lump-sum or partial lump-sum.

For the fiscal year ended June 30, 2011, employees contributed $27,603.47 and the Department contributed $43,061.41. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement system. This report contains full pension-related disclosures.

The State of Nebraska Comprehensive Annual Report (CAFR) also includes pension-related disclosures. The CAFR is available from the Nebraska Department of Administrative Services – Accounting division or on the Nebraska auditor of Public Accounts website at www.auditors.state.ne.us.

11. Contingencies and Commitments.

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Department, as part of the primary government for the State, participates in the State's risk management program. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident with a self-insured retention of $300,000 per accident, except for accidents involving vehicular pursuit which have a $1,000,000 self-insured retention per accident. Insurance is also purchased for physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

B. Life insurance for eligible employees.

C. Crime coverage, with a limit of $31 million for each loss, and a $25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS – Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Program's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

12. Subsequent Event

As of June 30, 2011, the State had communicated to NIFA and Wells Fargo (bond Trustee) that they were going to retire a number of bonds, effective July 1, 2011. Bonds scheduled to be retired on July 1, 2011 were Series 2001A, 2002A, 2003A, 2005A and 2006A. Any financial statements, revenue projections, debt service schedules, etc. that are part of these footnotes and accompanying financial statements do not reflect the retirement of these bonds, as the fiscal standing on June 30, 2011 is reported. The DWSRF Annual Revenue Projection Report that is issued on June 30, 2011 has further notes and details as to the effect of the decision to retire these bond series.

II. PROGRAM INFORMATION SECTION

A. Fund Activities

1. Loan and Investment Status

The fund has a loan portfolio containing $155,850,884 in total loan allocations, of which $41,605,318 was repaid; $96,111,645 is outstanding, leaving $18,133,921 still to be disbursed. Details on the Fund portfolio of 161 loans are in Attachment 1. The blended interest rate on the SFY2011 outstanding loan balance is 2.737%. The SFY2010 blended rate was 2.12%. The result was an overall 10.7 basis point decrease. The blended rate is likely to decrease again slightly over the next year.

2. Binding Commitments, Loan Assistance and Set-aside Allocations

This past SFY, the DWSRF entered into 23 binding commitments, with 20 executed loan agreements and 4 loan amendments to existing funded communities in order to provide financial assistance to PWS projects totaling $19,994,895. Of that amount, disadvantaged communities received $3,146,433 in forgiveness funding. Further, the FFY2010 capitalization grant required that a minimum of 30% ($4,071,900) of the grant be reserved for additional subsidization (e.g., principal forgiveness) and 20% ($2,714,600) for the Green Project Reserve (GPR) (e.g., water meters). Only 69% and 26% of these requirements were met before the end of the SFY, respectively. However, with several loan closing scheduled before September 2011 there are no problems anticipated with meeting the required grant conditions.

Attachment 2 provides information showing the loan agreements entered into during SFY2011 by quarter and shows the cumulative binding commitment amount since the program initiation. The requirement is to allocate 100% of the capitalization grant less set-asides plus required state match within one year of receiving the grant payment. The cumulative requirement is $134,570,757. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of $183,635,473 or 136.5% of the required amount. The net cumulative commitment amount after final loan adjustments and loan cancellations totals $170,288,518.

From the FY2010 capitalization grant $1,221,460 was allocated to the 2% ($271,460), 10% ($750,000) and 15% ($200,000) Set-Asides. Further detail is provided below regarding the use of those set-aside allocations.

3. Administration (4%) Set-Aside and Cash Fund

The program is now utilizing the Administration cash fund for most of the salaries and associated expenses of personnel administering the DWSRF program and is not presently exercising this set-aside option. At NDHHS-DPH, part of the funds from the Administration Cash Fund paid salaries and associated expenses of personnel administering the DWSRF program. DWSRF administration in NDHHS-DPH has included the following activities:

- Held a public forum to seek input on the priority ranking system.
- Reviewed and adopted the priority ranking system.
- Presented the priority ranking system to the Advisory Council on Public Water Supply for their approval.
- Conducted Needs Surveys and solicited applications.
- Developed the prioritized project lists.
- Provided NDEQ with information on potential DWSRF loan applicants.
- Developed a Set-Aside Work Plan.

- Provided input to NDEQ in the development of the DWSRF Intended Use Plan documents.
- Performed technical reviews of preliminary engineering reports for DWSRF projects.
- FNSI & Categorical Exclusion preparation.
- Determined compliance of project construction documents with Nebraska / Federal Safe Drinking Water Act requirements for DWSRF projects.
- Attended DWSRF project and other related meetings, as needed.
- Conducted DWSRF-related field inspections to determine compliance of construction with plans and specifications as approved by NDHHS-DPH.
- Provided NDEQ copies of approval letters for the proposed construction and for placement into service upon completion of the DWSRF projects and final inspection by NDHHS-DPH.
- Provided NDEQ with input on FNSI's and Categorical Exclusions.
- Performed NDHHS-DPH capacity development strategy related reviews.
- Completed special EPA / DWSRF workload activities as requested.
- Participated in the EPA program audits.
- Reviewed Operation and Maintenance Manuals for DWSRF funded projects.

During the SFY, following ARRA being passed into law, the cash fund paid for the following activities that were conducted for the planned and on-going ARRA program by Nebraska's DWSRF.

- Attended several EPA conference calls and webcasts regarding the implementation of the ARRA as it specifically related to the DWSRF. With particular emphasis on Reporting and Buy American Provision compliance.
- Completed ARRA required reporting to the EPA on weekly basis and Section 1512 reporting to reporting.gov on a quarterly basis.
- Provided guidance to ARRA sub-recipients, on an as needed or requested basis.

At NDEQ funds from the Administration Cash Fund paid salaries and associated expenses of personnel administering the DWSRF program. DWSRF administration in NDEQ has included the following activities:

- Developed program documents and procedures
- Solicited applications
- Developed the IUP
- Conducted stakeholder meetings
- Conducted a public hearing for the IUP
- FNSI & Categorical Exclusion issuance
- Grant application processing
- Loan application processing
- Plans and specification reviews for assurances
- Construction management
- Match bond procurement
- Disbursement processing
- Loan servicing
- Financial accounting
- Project and program audits
- Financial modeling
- Attended state and national meetings

4. Set-Aside Small Systems Technical Assistance (2%)

During SFY2011 NDHHS-DPH had contracts with one assistance provider:

A. Nebraska Rural Water Association

This organization helped small systems:

- Determine what technical, financial and/or managerial assistance is needed,
- Explore different types of financial assistance available,
- Apply for financial assistance,
- Review management and organization structure and offer alternative methods of operation and management,
- Perform financial and managerial assessments of water systems that are applying for SRF funding or that are deemed to be in need of such an assessment,
- Develop corrective action goals which are based on the findings of technical assessments
- Provide technical, financial and managerial assistance to PWS identified as needing such assistance.
- NeRWA was committed to conducting an average of 25 on-site visits each month.

5. State Program Management: Capacity Development (10%)

A. Engineering & Field Services and Monitoring & Compliance Staff

This set-aside was used to fund salaries, benefits, and all other related operating expenses (e.g., travel, etc.) for staff employed in Nebraska's Public Water Supply Supervision (PWSS) Program in accordance with the work plan approved under the EPAs PWSS Program grant. The staff positions include Drinking Water Program Specialists in the Monitoring and Compliance program, Water Supply Specialists in the Field Services Program, and Engineers in the Engineering Services Program. In addition, this set-aside partially funds the Department's Water Security Coordinator position.

B. Capacity Development

From July 1, 2010 through June 30, 2011 NeRWA provided 316 on-site visits for technical assistance to 194 PWS's.

NeRWA reported giving direct Financial and Managerial assistance 113 times to 84 PWS's.

In SFY2011 Field Services representatives performed 396 Routine Sanitary Surveys (RSS) and 48 Follow-up surveys. There were 196 Community, 45 Non-Transient and 155 Transient Non-Community Routine Sanitary Surveys. The numbers of deficiencies found are as follows:

Community Systems:
Significant: 487 Minor: 186
A total of 673 deficiencies. Average of 3.4 significant or minor deficiencies per system.

Non-Transient Non-Community Systems:
Significant: 68 Minor: 19
A total of 87 deficiencies. Average of 1.9 significant or minor deficiency per system.

Transient Non-Community Systems:
Significant: 184 Minor: 59
A total of 243 deficiencies. Average of 1.6 significant or minor deficiencies per system.

Of the 1,003 significant and minor deficiencies found in SFY2011 there are only 38 left to still be corrected. The vast majority of these are record keeping related deficiencies. This means that for SFY2011 Nebraska had 97% deficiency correction rate. There are 29 PWS's that had a RSS in SFY2011 that still have at least one outstanding deficiency. Eighty-nine percent of the PWS's have fully complied with all deficiencies that were found. With increased attention being paid to sanitary survey deficiencies we fully expect the deficiency correction number to be close to 98% in SFY2012. Because of the SDWIS database the State can effectively compare survey and deficiency data. The normal rotation for sanitary surveys is every 3 years for Community and Non-Transient Non-Community systems and every 5 years for Transient Non-Community systems. In 2012 NDHHS-DPH will be able to take an easy look back at Community and NTNC systems, compare survey data, and see if the numbers of deficiencies found will decrease as planned and whether or not NDHHS-DPH will find the same deficiencies. If the numbers of deficiencies decrease we can be sure that our Capacity Development program is working.

C. Operator Certification

During SFY2011 NDHHS-DPH delivered 10 water operator training courses applicable to various grade levels. Water operator licenses were issued to 126 individuals in SFY2011. The number issued per license grade is as follows:

Grade 1 - 1 license
Grade 2 - 6 licenses
Grade 3 - 17 licenses
Grade 4 - 102 licenses

All PWSs are required to obtain the services of an operator holding a valid license equal to or greater than the classification of the water system. Grade 4 is Nebraska's lowest level of license for a person to be able to operate a Community or Non-transient Non-Community PWS. Grade 1 is the highest. Licenses issued, down to Grade 5 water operators that were not included in this report. A Grade 5 is issued to an individual who operates a Transient Non-Community PWS and is not required to be renewed. All other water operator licenses require continuing education for renewal, and laws under the Nebraska Uniform Credentialing Act, effective on December 1, 2008, now require those licenses be renewed every 2 years.

D. Documentation of 1:1 Match for 10% Set-Aside

The State may use up to a total of 10 percent of the Capitalization Grant for the PWS Program Administration set-aside, but must provide a one-to-one state match as required by Section 1452(g)(2). NDHHS-DPH used $750,000 from the FFY2010 Capitalization Grant to administer Nebraska’s Public Water Supply Program during SFY2011 into SFY2012. NDHHS-DPH used a combination of the following to meet the match requirement for the 10 percent set-aside:

- A credit from the general funds provided for the match of FFY93 PWS program grant (Total of $233,688).
- A credit from the additional general funds (i.e. overmatch) provided by the State for the PWS program grant in FFY93 (Total of $272,339).
- Current year general funds allocated to the PWS program, not used for match to the PWS program grant (Total of $220,285 in general funds provided during FFY2010 not used for match); and
- Cash contributions in the form of income from fees received to perform analyses at the State laboratory for PWSs (Fee amount received during SFY2011 was $1,218,837), for review of plans ($149,595 received in SFY2011), and for operator certifications (Not Applicable for SFY2011).

The total of State funding available for one-to-one match to the $750,000 was $2,094,744.

6. Local Assistance and Other State Programs (15%)

A. Land Acquisition For Source Water Protection

Funds potentially available for land acquisition were released back to the SRF and used for drinking water facility loans. The present program intent is not to reserve funds for land acquisition under future grants.

B. Source Water Delineation and Assessment

Nebraska’s Source Water Assessment Program (SWAP) was submitted to EPA Region VII in February 1999 and approved in October 1999. NDEQ is implementing the EPA approved program in cooperation with the NDHHS-DPH, NeRWA, the Natural Resources Districts, and numerous other stakeholders. All assessments were completed and distributed by August 2003.

Source Water and Wellhead Protection staff were funded with 319 Non-Point Source funds and 15% DWSRF Set-Aside money. NDEQ staff continues to work with public water suppliers to develop protection actions for their drinking water supplies. Staff have updated Wellhead Protection Area maps (or adopted the acceptable work of others) and Watershed Delineation Area maps for Nebraska public water supplies. Staff have performed database searches of potential contaminant sources and used NDHHS-DPH's existing vulnerability determinations to meet the SWAP requirements. As of June 30, 2011, 91 PWSs have completed state-approved wellhead protection plans.

Beginning with FY2003, approximately $200,000 of the 15% DWSRF set-aside had been used annually for Source Water Protection granted projects. This amount was reduced to $100,000 beginning in FFY2007. The allocation from the FFY2009 Capitalization Grant was distributed to 2 different entities for project implementation to enhance source water quality, quantity, security, and education. These recipients were Village of Paxton and City of Wayne. The total amount available in SFY2011, including unexpended funds from prior funding years was $100,000. To date, Source Water Protection funds have been distributed to 49 individual entities to complete 63 separate Source Water Protection projects throughout the state.

C. Nebraska Environmental Partnerships (NEP)

NEP used DWSRF local assistance set-aside funds to provide financial assistance to eligible municipalities for preliminary engineering reports for small public water supply system improvement projects that will seek funding through the Water Wastewater Advisory Committee (WWAC) Common Pre-application process. This financial assistance is provided to communities to identify capital improvement needs as well as increase their readiness to proceed in accomplishing these improvements.

Planning grants may be provided to PWS's serving 10,000 or fewer people. This includes any city, town, village, sanitary improvement district, natural resources district, or other public body created by or pursuant to state law having jurisdiction over a community PWS. Privately owned PWS's are not eligible for assistance.

Grants are provided for up to 90% of costs for eligible preliminary engineering report services, but cannot exceed $15,000 per system. Grants for preliminary engineering report services for Regional PWS's remains at $25,000. No grant awards were made in SFY2011; however, grant funds will be available for SFY2012. Since its inception in SFY2002, NEP, through the DWSRF, has awarded planning grants to 82 communities for a total of $949,000. Although the NEP program no longer exists in name, the DWSRF will continue to fund planning grants initiated by the NEP program.

D. Security Grants

On September 23, 2009, approval was received from EPA for $275,000 in security grant funding. Letters were sent to all community PWS's with populations less than 10,000 notifying them of the grant program in 2010 and 2011. The maximum grant award was $5,000, with a 10% match required on all awards. The majority of that funding was awarded last fiscal year. This year, leftover funds were used for four grants, which resulted in the following types of projects being installed:

• Mapping	1
• Fencing	1
• Generators	2
Number of Grants Awarded	4

The Generators item includes transfer switches for generators and other generator related hardware in addition to going toward the purchase of actual generators.

E. Capacity Development

NDHHS-DPH continues to use this set-aside to fund one FTE staff. That position administers the Public Water System Capacity Development Program for NDHHS-DPH. The position includes oversight and on-going implementation of the State's Capacity Development strategy, writing and administering contracts which utilize funding from the DWSRF 2% set-aside monies, and writing and submitting all necessary reports and other documents that are required as part of this program. The program coordinator held 9 presentations and 14 table-top exercises involving asset management for PWS's, and an asset management presentation was made at three State conferences. In addition, in coordination with the Midwest Assistance Program, a single board training session was performed during the past fiscal year.

7. Match Discussion

The ratio for match purposes is theoretically 1/6 state, 5/6 federal, for an 83.33% ACH draw as a percentage of total disbursement. However, the use of set-asides makes the actual percentage fluctuate. Since set-asides are not matched directly the draws for set-asides must be matched by a later disbursement on a loan project. As of June 30, 2010 the ACH draw was $105,853,255 and the match disbursement was $22,852,821 for an ACH draw as a percentage of grant plus match disbursements ratio of 82.24%. This ratio indicates that the state has overmatched on this requirement.

B. GOALS AND ACCOMPLISHMENTS

1. Provisions of the Operating Agreement/Conditions of the Grant

The State of Nebraska has complied with the conditions of the DWSRF Operating Agreement and grant agreement as listed or as described more fully below:

- Establish state instrumentality and authority
- Comply with applicable state laws and procedures
- Review technical, financial, and managerial capacity of assistance recipients
- Establish DWSRF loan account, set-aside account, and DWSRF administration account
- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require DWSRF loan recipient accounting and auditing procedures
- Submit IUP and use all funds in accordance with the plan
- Comply with enforceable requirements of the Act
- Establish capacity development authority (See II.A.6.A and E)
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Develop and submit project priority ranking system
- Take payments based on payment schedule
- Deposit state matching funds
- Submit biennial report
- Annual audit
- DWNIMS data entry
- Assure that borrowers have dedicated source of repayment
- Use funds in timely and expeditious manner
- Ensure recipient compliance with applicable federal cross-cutting authorities
- Implement capacity development strategy (See II.A.5.B)
- Implement an operator certification program (See II.A.5.C)
- Conduct environmental reviews including:

Environmental Reviews were conducted on 20 PWS projects during SFY2011. It was determined that no Environmental Impact Statements (EIS) were necessary; instead Environmental Assessments (EA) were prepared and Finding of No Significant Impact Statements (FNSI) were issued for 9 projects: Albion, Cairo, Cortland, Humboldt, Humphrey, Osceola, Platte Center (Construction), Pickrell, and Ravenna. Categorical Exclusion(s) (CE) were issued for 11 projects: Aurora, Carroll, Hartington, Holstein, Lincoln, Nemaha Rural Water District No. 2, Platte Center (Planning & Design), Rogers, Terrytown, Wauneta, and Wausa.

2. Short Term Goals and Accomplishments

Eight short-term goals were described in the SFY2011 Intended Use Plan. The short-term goals support the implementation of the program. The DWSRF has made significant progress on most of its short-term goals. The DWSRF program continues to work with the systems identified by providing both technical and financial project support. The goals are listed and discussed as follows:

1. Continue to attract customers to the program with short-term inducements and low interest rates. The interest rate system has a 2.0% rate during construction. Reduced interest rate incentives are also offered for short-term loans. The lowest term rate available is 2.0%.

This goal was accomplished nearly across the board for all projects funded in SFY2011. Following the DWSRF-ARRA program, every DWSRF loan was issued at a 2.0% interest rate. However, as of January 2011 the rate was increased a ¼ point, but still maintained at 2% during construction. The increased 2.25% rate was made with five loans. In addition, two 30-year term loans were made at a 2.3% interest rate, with the 0.3% rate increase normal for that program.

2. To commit available loan funds to as many of the highest priority systems as possible in accordance with the IUP.

There were 20 loans and 4 loan amendments were closed during SFY2011. Fifteen of the loans were for high priority status projects. Two others were for installing water meters in communities, that while not high priority are a direct requirement of the Green Project Reserve (GPR) from the FFY2010 grant conditions. Seven high priority status projects addressed enforcement actions issued by NDHHS-DPH: Cedar-Knox Rural Water District (RWD) – Administrative Order (A.O.) for Disinfectants and Disinfection Byproducts, Humboldt – A.O. for Nitrate Maximum Contaminant Level (MCL) violations, Albion – A.O. for Selenium MCL violations, and Osceola, Shelby, Stromsburg and Wauneta – Arsenic Exemptions.

3. To assist systems which need to upgrade or construct new drinking water projects to attain and maintain compliance with the provisions of the Nebraska Safe Drinking Water Act and the regulations adopted thereunder.

All systems that closed loans in SFY2011 with the DWSRF met this goal. Descriptions of the individual projects are provided in Attachment 4.

In addition, loan amendments were completed with Bellwood, Dalton, North Loup and Wauneta. The project with Dalton was water meters initially funded through GPR-ARRA program and the remaining three are needed to help address Arsenic MCL violations.

4. To assist systems in meeting required drinking water quality standards. This includes the potential need of focusing resources on systems with compliance deadlines established by the NDHHS-DPH.

See responses to number 3 above for all 24 loans or amendments, except Blair, Beatrice, Carroll, Dalton, Holstein and Kearney. The Disinfection Byproducts, Nitrate and Selenium A.O.'s and Arsenic Exemptions all have set deadlines or extensions agreed to between the City or Village, and the NDHHS-DPH.

5. To work with the systems in need of technical, financial, and managerial assistance.

See responses to number 3, in particular for those PWSs installing water meters through the GPR. The DWSRF is providing funding for the installation of water meters in those communities, which will help accurately identify revenue, needed to efficiently manage a PWS. Further, NDHHS-DPH routinely provides technical, financial, and managerial assistance to PWSs. The NeRWA as the 2% Team Contractor provides technical, financial and managerial assistance to small systems throughout Nebraska. The 10% set-aside was also used in part to fund the Water Security Coordinator's position in the NDHHS-DPH.

6. To address critical public health needs identified by the Drinking Water Program administered by NDHHS-DPH.

See response to number 3 above for Cedar Knox RWD, Humboldt, Albion, Osceola, Shelby, Stromsburg and Wauneta.

7. To provide at least 15% of the DWSRF capitalization funds for loans to small systems with populations under 10,000.

The majority of the DWSRF funding provided in SFY2011 was to PWSs with populations less than 10,000. Only the loans made to Beatrice and Kearney did not meet this goal. As such, over 95% of the funding provided was to small systems.

8. To continue revisions of source water delineations and complete the transition from source water assessments to protection activities, utilizing the source water protection set-aside for granted projects.

NDEQ has drawn or adopted all community and non-community PWS Wellhead Protection Area maps and Watershed Delineation Area maps. Maps are updated and drawn as needed. A relational database is utilized to manage Wellhead and Source Water Protection data.

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY2011 Intended Use Plan. The goals are listed and discussed as follows:

1. Management intends to administer the DWSRF fund so its revolving nature is assured in perpetuity in order to provide a source of continuing financial assistance to PWS for future drinking water needs. It is our intent to request EPA capitalization grants and obtain state match in a timely manner. We also intend to allocate grant funds, match and recycle funds to projects in a timely manner.

In establishing the financial structure of the program we have tried to provide the lowest reasonable interest rate loans for projects that address human health problems. With the addition of the DWSRF-ARRA grant, interest rates were lowered to a flat rate of 2% through DWSRF-ARRA program period. Rates were increased slightly by a ¼ point halfway through the fiscal year after a review of Market rates. This structure will also ensure that the DWSRF will serve as a long-term source of funding by judicious use and management of its assets and by realizing an adequate rate of return with consideration for current inflation rates.

2. To survey systems for drinking water infrastructure needs in order for NDHHS-DPH to maintain a database for making program decisions, and to evaluate user charges on a regular basis.

An infrastructure needs survey is updated and conducted annually so that program resources and funds may address the most significant public health and compliance issues facing the eligible PWSs. The survey is started in October and completed by December 31st annually. The program has and will continue to incorporate the most appropriate readiness to proceed criteria to match PWS funding needs in the State.

3. To protect the public health by funding high priority projects.

In SFY2011, 15 of the 20 loan agreements and over 80% of the funding provided was to high priority projects, to either address or proactively mitigate future public health issues. Through the Water Wastewater Advisory Committee (WWAC) monthly meetings, eligible projects are discussed by the participating state and federal agencies and evaluated for the health-related issues being addressed, project alternatives, cost-effectiveness, and long-term solution for the water system. See Section C below for additional details.

4. To promote cost-effective water projects which consider several alternatives and include a cost-effectiveness analysis comparing the appropriateness of the alternatives.

This is accomplished through the program's engineering report requirements in Title 131 and the WWAC process described in the response to number 3 above.

5. To ensure that facilities are physically separated, to the greatest extent possible, from water or land areas that contain high levels of materials that are harmful to humans.

Through the statutory authority in Title 179 NAC 7 all wells, treatment and storage facilities and other appurtenances necessary for the continued operation of a PWS must be located: (1) to protect against damage or breakdown as a result of floods, fire, earthquakes, or other natural disasters to the greatest extent possible, and (2) to prevent contamination of the drinking water by existing sources of pollution to the greatest extent possible. This applies to all projects funded through the DWSRF.

6. To maintain a program that will consider the long-term viability of existing and proposed PWSs.

NDHHS-DPH has had a Capacity Development Strategy program in effect since August 6, 2000, which assists public water supply systems in acquiring and maintaining technical, managerial, and financial capacity. Also see the Nebraska Environmental Partnerships (under the 15% Set-Aside section) which provides funds for planning grant assistance through the DWSRF as a part of the capacity development strategy.

7. To provide loan assistance at the lowest reasonable interest rates.

See response to number 1 above.

8. Insuring the fund's purchasing power in perpetuity requires balancing the need for fund growth at the rate of inflation experienced in the construction industry, versus the desire to provide loans at low interest rates. Long term inflation based on the ENR construction cost index averages 5 percent; however rates in the past year have been higher. At the same time the public finance bond market rates have remained low. The fund and loan interest rates and cost of borrowing the state match will be examined annually to evaluate the fund net growth and determine the reasonableness of loan interest rates. Management practices will be reviewed and modified annually to assist in achieving the growth goals.

See response to number 1 above.

9. To coordinate with, the United States Department of Agriculture-Rural Development and the Nebraska Department of Economic Development-Community Development Block Grant Programs to provide affordable financing for public drinking water needs.

From its inception, Nebraska's DWSRF program has provided low-interest loans and some forgiveness each year of the program. With the mandatory subsidization requirement of not less than 30% added with the FY2010 capitalization grant, the ability for the program to provide affordable financing continued to increase this past fiscal year. In addition, other agencies' participation in the WWAC include the Nebraska Department of Economic Development, which administers the Community Development Block Grant program, and the USDA-Rural Development, which administers the Business and Community Programs, providing loans and grants to non-profit organizations in rural areas. Together, these programs have provided state and/or federal financial assistance to make drinking water infrastructure projects affordable in the State.

10. To progress toward incorporating source water protection best management practices into public water supply operations.

NDHHS-DPH conducts routine sanitary surveys of PWSs and NDEQ has implemented a wellhead protection program both of which assist in incorporating source water management concepts into the communities' water programs. The NDHHS-DPH priority ranking system prioritizes the systems to allow systems with the greatest needs to have first chance at the funding. The ranking system was modified in

SFY2011 to include additional readiness to proceed criteria and additional criterion for the GPR, and will likely be further refined in SFY2012.

C. Funded Program

The Annual Report reflects the results and changes from the SFY2011 Intended Use Plan approved by the Environmental Quality Council (EQC) on July 15, 2010. Provided on the next page is a brief synopsis of the SFY2011 Funding List communities that close loans during the fiscal year. More detailed project information for the loans closed in SFY2011 is provided in Attachment 4.

NDHHS-DPH works with all members of the WWAC to identify projects that are potentially ready to be funded and moving forward during the SFY. This approach was helpful for those systems that indicated that they were anticipating moving forward with a project during the SFY. Below is a summary of the known status for each of the high priority projects for the systems that made contact with the NDHHS-DPH DWSRF Coordinator during the past fiscal year, starting first with the SFY2011 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Allen, Village of – Was considering Wellhead Protection as a means of compliance with a Nitrate A.O. issued by DHHS-DPH, but continued monitoring showed levels that dropped back below the MCL. The project, if ever implemented, would be funded through the DWSRF.

Beaver Crossing, Fairfield, and Hildreth, Villages of – Chose to privately fund their projects as the communities were not interested in installing water meters, a DWSRF program requirement.

Denton, Village of – Is planning to construct a Radium removal treatment plant, which will likely be funded by the DWSRF in SFY2012.

Logan East Rural Water System – Successfully tested out of lead and copper monitoring, and thus will not be implementing a corrosion control project.

Ohiowa, Village of – Is moving forward with a sanitary improvement project through the USDA-RD and CDBG programs. Their water project will be on hold until that effort is completed.

Ragan, Village of – Chose to not proceed with their water meter project.

Waverly, City of – Chose to not pursue DWSRF assistance to fund their project.

Wood River, City of – Chose to not proceed with their new well project.

Planning List Projects

Abie, Village of – Turned down a DWSRF bypass offer for the installation of water meters.

Anselmo, Village of – Has completed deep test wells and is developing plans for two replacement wells that will be funded through the CDBG and USDA-RD programs.

Atlanta, Village of – Did not respond to a DWSRF bypass offer for the installation of water meters.

Aurora, Village of – Accepted a DWSRF bypass offer for the installation of replacement water meters. The project will be funded through the GPR in SFY2012.

Bayard, City of – Is considering constructing a Reverse Osmosis treatment plant to address a Nitrate A.O. The project, if constructed, will be funded through the USDA-RD.

Beatrice West Public West Project – The local Natural Resources District will be constructing a new rural water system that is scheduled to be funded through the USDA-RD.

SFY 2011 FUNDING LIST PLANNED					SFY 2011 FUNDED PROGRAM				
PROJECT RANK	PRIORITY POINTS	PUBLIC WATER SYSTEM	ESTIMATED COST	ESTIMATED FORGIVENESS	TOTAL ASSISTANCE	ACTUAL FORGIVENESS	NET LOAN AMOUNT	AGREEMENT DATE/QUARTER	COMMENTS
1	190	HUMBOLDT, CITY OF	$ 2,809,454	$ 561,891	$ 2,570,500	$ 514,100	$ 2,056,400	SFY2011-Q4	
2	190	HILDRETH, VILLAGE OF	$ 582,609	$ 116,522	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
3	175	OHIOWA, VILLAGE OF	$ 1,000,000	$ 200,000	$ -	$ -	$ -	N/A	Passed on Funding, focused on Clean Water project.
4	165	HUMPHREY, CITY OF	$ 2,555,000	$ 511,000	$ 2,288,242	$ 457,648	$ 1,830,594	SFY2011-Q4	
5	160	DENTON, VILLAGE OF	$ 2,200,000	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2012 Funding List.
6	160	ALLEN, VILLAGE OF - SFY 2010	$ 123,930	$ 24,786	$ -	$ -	$ -	N/A	Returned to compliance through routine monitoring.
7	155	PLATTE CENTER, VILLAGE OF - SFY 2010	$ 939,028	$ 187,806	$ 212,500	$ 42,500	$ 170,000	SFY2011-Q3	Loan Amendment planned for SFY2012.
8	155	SHELBY, VILLAGE OF	$ 754,600	$ 150,920	$ 1,196,600	$ 150,920	$ 1,045,680	SFY2011-Q3	
9	155	OSCEOLA, CITY OF	$ 1,284,550	$ 256,910	$ 1,284,550	$ 256,910	$ 1,027,640	SFY2011-Q3	
10	145	HICKMAN, CITY OF - SFY 2010	$ 3,086,309	$ 215,116	$ 3,086,309	$ 215,116	$ 2,871,193	SFY2011-Q1	
11	145	BRIDGEPORT, VILLAGE OF - SFY 2009	$ 1,264,702	$ 632,351	$ 1,164,916	$ 582,458	$ 582,458	SFY2011-Q2	
12	145	CEDAR-KNOX RWD - SFY 2010	$ 80,000	$ 16,000	$ 134,090	$ 66,978	$ 67,112	SFY2011-Q1	
13	145	STROMSBURG, CITY OF	$ 236,448	$ 96,755	$ 1,594,448	$ 96,724	$ 1,497,724	SFY2011-Q3	
14	140	DORCHESTER, VILLAGE OF - SFY 2010	$ 1,346,443	$ 269,289	$ 1,521,110	$ 304,222	$ 1,216,888	SFY2011-Q1	
15	135	WOOD RIVER, CITY OF	$ 1,049,000	$ 209,800	$ -	$ -	$ -	N/A	Turned down Funding, did not proceed with project.
16	135	WAUSA, VILLAGE OF	$ 400,000	$ 80,000	$ 307,000	$ 61,400	$ 245,600	SFY2011-Q4	
17	135	FAIRFIELD, CITY OF	$ 275,000	$ 55,000	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install meters.
18	135	RAGAN, VILLAGE OF	$ 20,000	$ 4,000	$ -	$ -	$ -	N/A	Passed on Funding, did not proceed with project.
19	130	BEAVER CROSSING, VILLAGE OF	$ 1,454,000	$ 290,800	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
20	130	LOGAN EAST RURAL WATER SYSTEM	$ 1,148,500	$ 229,700	$ -	$ -	$ -	N/A	Returned to compliance through routine monitoring.
21	120	ALBION, CITY OF - SFY 2010	$ 600,000	$ 120,000	$ 352,500	$ 70,500	$ 282,000	SFY2011-Q2	
22	120	WAUNETA, VILLAGE OF	$ 201,000	$ 40,200	$ 352,000	$ 70,400	$ 281,600	SFY2011-Q2 & Q4	Loan and Amendment signed in SFY2011.
23	105	WAVERLY, CITY OF	$ 3,950,000	$ -	$ -	$ -	$ -	N/A	Passed on Funding.
24	90	PICKRELL, VILLAGE OF	$ 228,377	$ 45,675	$ 228,377	$ 45,675	$ 182,702	SFY2011-Q3	
25	85	LOWER PLATTE NORTH RWD - BRUNO	$ 1,100,000	TBD	$ -	$ -	$ -	N/A	Passed on Funding, Abie did not want to install meters.
26	85	ABIE, VILLAGE OF	$ 448,333	TBD	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
27	85	BLADEN, VILLAGE OF	$ 1,000,348	TBD	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install meters.
28	85	WEST KNOX RWD	$ 4,097,000	TBD	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2012 Funding List.
29	70	MERRIMAN, VILLAGE OF	$ 463,375	TBD	$ -	$ -	$ -	N/A	Passed on Funding, not ready to proceed.
30	65	RAVENNA, CITY OF	$ 2,877,000	TBD	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2012 Funding List.
31	60	CAIRO, VILLAGE OF	$ 566,100	TBD	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2012 Funding List.
SFY 2011 PLANNING LIST - BYPASS SYSTEMS					SFY 2011 FUNDED PROGRAM				
NR	135	ROGERS, VILLAGE OF	N/A	N/A	$ 96,600	$ 19,320	$ 77,280	SFY2011-Q2	Funded per SFY2011 Bypass Criteria.
NR	45	BEATRICE, CITY OF	N/A	N/A	$ 740,000	$ -	$ 740,000	SFY2011-Q1	Funded per SFY2010 Bypass Criteria.
NR	45	BLAIR, CITY OF	N/A	N/A	$ 2,341,400	$ -	$ 2,341,400	SFY2011-Q1	Funded per SFY2010 Bypass Criteria.
NR	45	KEARNEY, CITY OF	N/A	N/A	$ 240,000	$ -	$ 240,000	SFY2011-Q1	Funded per SFY2010 Bypass Criteria.
					$ 19,711,142	$ 2,954,871	$ 16,756,271		

SFY 2011 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2011 GREEN PROJECT RESERVE FUNDED PROGRAM				
PROJECT RANK	PUBLIC WATER SYSTEM	ESTIMATED COST	ESTIMATED FORGIVENESS	TOTAL ASSISTANCE	ACTUAL FORGIVENESS	NET LOAN AMOUNT	AGREEMENT DATE/QUARTER	FUNDING DESCRIPTION AND/OR COMMENTS
1	ABIE, VILLAGE OF	$ 51,667	$ 10,333	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
2	BEAVER CROSSING, VILLAGE OF	$ 414,200	$ 82,840	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
3	BLADEN, VILLAGE OF	$ 320,252	$ 64,050	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install water meters.
4	CAMPBELL, VILLAGE OF	$ 523,020	$ 104,604	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install water meters.
5	DORCHESTER, VILLAGE OF - SFY 2010	$ 468,450	$ 93,690	$ 293,783	$ 58,757	$ 235,026	SFY2011-Q1	
6	HILDRETH, VILLAGE OF	$ 757,391	$ 151,478	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
7	MERNA, VILLAGE OF	$ 325,990	$ 65,198	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install water meters.
8	WILSONVILLE, VILLAGE OF	$ 140,307	$ 28,061	$ -	$ -	$ -	N/A	Incorrect Needs Survey submission, PWS has meters.
9	POTTER, VILLAGE OF	$ 373,300	$ 74,660	$ -	$ -	$ -	N/A	Turned down Funding, did not want to install meters.
10	LOOMIS, VILLAGE OF	$ 410,844	TBD	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install water meters.
11	TERRYTOWN, CITY OF	$ 847,826	TBD	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2012 GPR Funding List.
12	DONIPHAN, VILLAGE OF	$ 723,404	TBD	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install water meters.
13	BERTRAND, VILLAGE OF	$ 616,304	TBD	$ -	$ -	$ -	N/A	Passed on Funding, did not want to install water meters.
SFY 2011 COMPREHENSIVE LIST - BYPASS SYSTEMS				SFY 2011 FUNDED PROGRAM				
14	HOLSTEIN, VILLAGE OF	$ 248,412	TBD	$ 256,600	$ 45,019	$ 211,581	SFY2011-Q4	Funded per SFY2011 Bypass Criteria.
17	CARROLL, VILLAGE OF	$ 100,000	TBD	$ 154,440	$ 30,888	$ 123,552	SFY2011-Q4	Funded per SFY2011 Bypass Criteria.
				$ 704,823	$ 134,664	$ 570,159		

Bee, Village of – Is planning a corrosion control/blending project for Nitrates. If constructed, the project is listed on the SFY2012 DWSRF Funding List for assistance.

Belden, Village of – Is joining a new rural water system that will receive its supply from the Villages of Coleridge and Wausa. Belden's project phase is funded through the USDA-RD.

Bellwood, Village of – Installed new water meters through the DWSRF-ARRA GPR program in SFY2011. The Village is developing plans to treat is existing water source for the removal of Arsenic, a project that is under review through the WWAC.

Benkelman, City of – Is constructing an Arsenic and Uranium removal treatment plant through funding provided by USDA-RD's and the CDBG program.

Campbell, Village of – Did not respond to a funding offer through the DWSRF-GPR in SFY2011 for the installation of water meters.

Davey, Village of – Turned down a bypass funding offer from the DWSRF for a replacement water main project.

Green Acres Mobile Home Court – Is proceeding forward with treatment to remove Nitrates that will likely be privately financed by the PWS.

Haigler, Village of – Has begun a public participation program for installation of Point of Use devices to remove Arsenic from the existing supply source.

Hartington, City of – Turned down a DWSRF bypass offer for the installation of replacement meters.

Loomis, Village of – Turned down a DWSRF bypass offer for the installation of water meters.

Lyman, Village of - Is joining a regional water system, constructing a new well field with the Villages of Henry and Morrill. The project is being funded through the USDA-RD and CDBG programs.

Minatare, Village of – Has developed plans for interconnecting with the City of Scottsbluff, a project that will be funded through the CDBG and USDA-RD's programs.

Mitchell, City of – Will likely receive a DWSRF bypass funding offer in SFY2012 for the installation of replacement water meters.

North Loup, Village of – Installed new water meters through the DWSRF-ARRA GPR program in SFY2011. The Village is developing plans for a replacement water tower and new well(s) due to Arsenic concerns that can be funded through the CDBG program.

Osmond, City of – Did not respond to a DWSRF bypass offer for the installation of water meters.

Oxford, Village of – Will likely receive a DWSRF bypass funding offer in SFY2012 for the installation of replacement water meters.

Richardson County RWD No. 1 – Is working jointly with the City of Humboldt for the development of a new well field to address their Nitrate A.O. Their portion of the project will be funded through the USDA-RD,

Rogers, Village of – Accepted a DWSRF bypass offer for the rehabilitation of their water tower.

Shelton, Village of – Will likely move forward with a DWSRF funding offer in SFY2012. Planning to construct a new water well and install water meters.

Wood Lake, Village of – Will likely move forward with a DWSRF funding offer in SFY2012, as they are planning to rehabilitate their water tower.

The Village of Alda has completed their project through DWSRF and USDA-RD funding, and has been brought back into compliance with their A.O. previously issued by NDHHS-DPH. Spalding constructed a new stainless steel water storage tank, which was privately funded.

The communities of Hay Springs, Mead, Rosalie and Talmage submitted preliminary engineering reports to NDHHS-DPH, for a review for potential funding assistance through the WWAC.

D. Program Changes Under Consideration

Loan forgiveness funding will likely increase in SFY2013, as it remains projected at a level of not less than 30% of the FFY2012 capitalization grant. Changes under consideration include increased ranking points to address A.O.'s and the possible inclusion of EPA's recommended 2.5% water rate impact in project ranking and/or affordability determination.

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE
D311223	Adams		F	209,831.00	13,629.83	196,201.17	2.75	539,553.22	
D311151	Ainsworth		F	919,790.00	250,172.57	669,617.43	2.50	1,674,043.58	
D311493	Ainsworth		F	350,000.00	72,592.46	277,407.54	3.00	832,222.62	
D311001	Albion		F	492,950.00	226,394.98	266,555.02	3.00	799,665.06	
D311152	Albion			282,000.00	0.00	0.00	2.00	0.00	
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00	
D311517	Alda	ARRA	F	150,878.00	3,102.12	147,775.88	2.00	295,551.76	
D311496	Alliance	ARRA		3,894,789.00	75,000.00	3,411,171.00	2.00	6,822,342.00	
D311511	Alliance		F	595,224.00	24,585.50	570,638.50	2.00	1,141,277.00	
D311393	Ansley		F	595,260.00	65,575.26	529,684.74	3.00	1,589,054.22	
D311225	Arapahoe		F	450,000.00	112,379.22	337,620.78	2.50	844,051.95	
D311003	Arlington		F	1,592,435.00	780,776.66	811,658.34	3.47	2,816,454.44	
D311219	Auburn		F	630,784.00	94,238.44	536,545.56	3.53	1,894,005.83	
D311499	Auburn	ARRA		4,504,000.00	0.00	4,236,039.00	2.30	9,742,889.70	
D311004	Aurora		F	300,000.00	135,554.04	164,445.96	2.80	460,448.69	
D311495	Aurora		F	226,733.00	41,308.54	185,424.46	3.00	556,273.38	
D311226	Bancroft		F	591,000.00	119,384.78	471,615.22	2.50	1,179,038.05	
D311227	Barneston		F	32,794.00	20,201.90	12,592.10	2.50	31,480.25	
D311091	Bassett		F	138,342.00	43,886.63	94,455.37	2.50	236,138.43	
D311005	Bayard	ARRA	F	112,065.00	6,899.41	105,165.59	2.00	210,331.18	
D311147	Beatrice		F	826,223.00	315,706.87	510,516.13	3.18	1,623,441.29	
D311538	Beatrice			740,000.00	0.00	0.00	2.00	0.00	
D311006	Beaver Lake Association		F	3,276,647.00	708,275.49	2,568,371.51	4.00	10,273,486.04	
D311516	Bellwood	BASE		1,827.00	0.00	669.00	2.00	1,338.00	
D311516	Bellwood	ARRA		141,097.00	0.00	141,097.00	2.00	282,194.00	
D311073	Benedict		F	455,000.00	6,000.00	449,000.00	3.42	1,535,580.00	
D311142	Bennet		P	216,310.00	216,310.00	0.00	3.00	0.00	
D311399	Bennet	ARRA	F	612,697.00	12,531.26	600,165.74	2.00	1,200,331.48	
D311228	Big Springs		P	636,000.00	636,000.00	0.00	2.50	0.00	
D311228	Big Springs Amd#1		P	215,000.00	215,000.00	0.00	3.00	0.00	
D311007	Blair		F	6,815,700.00	3,497,088.02	3,318,611.98	3.03	10,055,394.30	
D311530	Blair			2,341,400.00	0.00	287,872.00	2.30	662,105.60	
D311131	Bloomfield		F	203,361.00	63,232.59	140,128.41	3.00	420,385.23	
D311491	Bloomfield		F	174,822.00	31,797.79	143,024.21	2.75	393,316.58	
D311093	Bloomington		P	151,697.00	151,697.00	0.00	2.50	0.00	
D311094	Blue Hill		F	459,656.00	184,785.29	274,870.71	3.00	824,612.13	
D311132	Boyd Co. RWD No. 2		F	822,000.00	351,199.84	470,800.16	3.30	1,553,640.53	
D311288	Bradshaw	BASE		18,362.00	0.00	888.00	2.00	1,776.00	
D311288	Bradshaw	ARRA		176,668.00	0.00	171,618.00	2.00	343,236.00	
D311081	Brady		F	365,547.00	79,092.50	286,454.50	3.30	945,299.85	
D311404	Bridgeport	ARRA	F	775,068.00	15,854.48	759,213.52	2.00	1,518,427.04	
D311529	Bridgeport			582,458.00	0.00	145,213.00	2.00	290,426.00	
D311405	Bristow		F	80,000.00	25,809.78	54,190.22	2.75	149,023.11	
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00	
D311229	Broken Bow		F	1,822,222.00	30,928.61	1,791,293.39	2.62	4,693,188.68	
D311009	Bruning		F	483,571.00	320,255.86	163,315.14	3.03	494,844.87	
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00	

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE
D311010	Brunswick		F	219,500.00	203,851.25	15,648.75	3.00	46,946.25	
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00	
D311456	Carroll			123,552.00	0.00	0.00	2.00	0.00	
D311159	Cedar-Knox (Lewis & Clark)		F	249,000.00	88,090.26	160,909.74	3.00	482,729.22	
D311524	Cedar-Knox (Lewis & Clark)			67,112.00	0.00	54,861.00	2.00	109,722.00	
D311012	Central City		F	387,572.00	69,456.96	318,115.04	2.75	874,816.36	
D311096	Ceresco		P	1,178,586.00	1,178,586.00	0.00	3.63	0.00	
D311013	Chadron		P	713,008.00	713,008.00	0.00	3.00	0.00	
D311294	Clarks		F	305,000.00	47,520.02	257,479.98	2.50	643,699.95	
D311509	Clarks			510,000.00	0.00	174,073.00	2.00	348,146.00	
D311163	Clay Center		F	521,158.00	213,032.86	308,125.14	3.00	924,375.42	
D311234	Cozad		F	1,142,471.00	175,642.02	966,828.98	2.75	2,658,779.70	
D311149	Crawford		P	668,700.00	668,700.00	0.00	3.00	0.00	
D311017	Culbertson		F	236,862.00	95,134.10	141,727.90	3.00	425,183.70	
D311018	Cuming Co. RWD No. 1		F	643,981.00	227,553.13	416,427.87	3.08	1,282,597.84	
D311457	Cuming Co. RWD No. 1		F	323,435.00	8,000.00	315,435.00	2.75	867,446.25	
D311506	Dalton	ARRA	F	197,024.00	4,030.24	192,993.76	2.00	385,987.52	
D311167	Davenport		F	440,000.00	119,333.09	320,666.91	3.40	1,090,267.49	
D311169	David City		F	626,435.00	186,829.58	439,605.42	2.51	1,103,409.60	
D311102	DeWitt		F	650,000.00	133,076.59	516,923.41	2.50	1,292,308.53	
D311238	Dodge		F	56,156.00	17,059.75	39,096.25	2.51	98,131.59	
D311240	Dorchester			1,451,914.00	0.00	137,226.00	2.00	274,452.00	
D311021	Duncan		F	465,000.00	62,748.19	402,251.81	4.30	1,729,682.78	
D311243	Elba		P	341,250.00	341,250.00	0.00	2.50	0.00	
D311243	Elba Amd#1		P	360,750.00	360,750.00	0.00	3.00	0.00	
D311022	Emerson		F	380,010.00	171,476.15	208,533.85	3.03	631,857.57	
D311302	Fairbury		F	694,436.00	152,627.00	541,809.00	2.50	1,354,522.50	
D311176	Fairmont		F	183,582.00	20,025.14	163,556.86	3.54	578,991.28	
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00	
D311536	Firth			350,000.00	7,000.00	319,301.00	2.00	638,602.00	
D311512	Friend	ARRA	F	208,508.00	9,344.05	199,163.95	2.00	398,327.90	
D311535	Fullerton		F	366,000.00	7,486.75	358,513.25	2.00	717,026.50	
D311026	Gering	BASE		445,110.00	5,000.00	440,110.00	3.24	1,425,956.40	
D311026	Gering AMD#1	ARRA		6,554,890.00	70,000.00	5,754,361.00	2.30	13,235,030.30	
D311245	Giltner		F	795,462.00	209,720.03	585,741.97	3.26	1,909,518.82	
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00	
D311214	Grafton		F	207,998.00	73,950.82	134,047.18	3.00	402,141.54	
D311104	Grant		F	273,674.00	158,853.48	114,820.52	3.00	344,461.56	
D311467	Gresham			100,000.00	0.00	88,119.00	2.00	176,238.00	
D311028	Gurley		F	173,280.00	42,756.94	130,523.06	3.74	488,156.24	
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00	
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00	
D311521	Hickman			2,871,193.00	0.00	1,521,976.00	2.00	3,043,952.00	
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00	
D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00	
D311544	Holstein			211,581.00	0.00	0.00	2.00	0.00	
D311033	Hubbard		F	154,778.00	31,150.08	123,627.92	3.79	468,549.82	

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE
D311109	Humboldt			2,056,400.00	0.00	0.00	2.30	0.00	
D311545	Humphrey			1,830,594.00	0.00	0.00	2.25	0.00	
D311067	Jackson		F	109,339.00	52,057.56	57,281.44	3.00	171,844.32	
D311034	Kearney		F	2,139,420.00	801,578.02	1,337,841.98	3.24	4,334,608.02	
D311282	Kearney		F	1,237,634.00	368,861.37	868,772.63	3.48	3,023,328.75	
D311398	Kearney		F	8,116,884.00	604,876.23	7,512,007.77	3.44	25,841,306.73	
D311540	Kearney		F	212,927.00	4,840.55	208,086.45	2.00	416,172.90	
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00	
D311184	Kimball		F	750,000.00	153,415.68	596,584.32	2.52	1,503,392.49	
D311504	Laurel	ARRA		357,266.00	7,000.00	273,664.00	2.00	547,328.00	
D311188	Louisville		F	843,275.00	113,447.81	729,827.19	3.50	2,554,395.17	
D311317	Lyons		F	695,000.00	97,032.58	597,967.42	2.50	1,494,918.55	
D311220	Madison Co. SID #3		F	491,843.00	35,460.72	456,382.28	3.39	1,547,135.93	
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00	
D311039	McCook		F	9,922,000.00	2,012,453.02	7,909,546.98	2.80	22,146,731.54	
D311130	Metropolitan Utilities Distr.		F	755,593.00	448,197.04	307,395.96	3.00	922,187.88	
D311498	Metropolitan Utilities Distr.	BASE		512,000.00	0.00	178,182.00	2.00	356,364.00	
D311498	Metropolitan Utilities Distr.	ARRA		5,447,225.00	0.00	5,100,368.00	2.00	10,200,736.00	
D311256	Niobrara		F	175,000.00	49,866.63	125,133.37	3.00	375,400.11	
D311155	Norfolk		F	1,781,318.00	1,071,310.28	710,007.72	3.00	2,130,023.16	
D311515	North Loup	ARRA	F	156,283.00	3,187.50	153,095.50	2.00	306,191.00	
D311042	North Platte		F	3,077,844.00	1,143,136.83	1,934,707.17	3.36	6,500,616.09	
D311322	North Platte		F	6,070,005.00	1,494,296.87	4,575,708.13	3.72	17,021,634.24	
D311078	Oakland		F	400,000.00	323,029.33	76,970.67	3.00	230,912.01	
D311503	Oakland			125,000.00	0.00	104,883.00	2.00	209,766.00	
D311138	Odell		F	103,293.00	36,726.85	66,566.15	3.03	201,695.43	
D311500	Oscelola	ARRA	F	270,772.00	5,538.80	265,233.20	2.00	530,466.40	
D311533	Oscelola			1,027,640.00	0.00	0.00	2.25	0.00	
D311198	Palisade		P	808,000.00	808,000.00	0.00	3.00	0.00	
D311080	Papio-Mo River NRD		P	338,800.00	338,800.00	0.00	4.00	0.00	
D311049	Paxton		P	1,131,000.00	1,131,000.00	0.00	3.00	0.00	
D311326	Pender		F	1,028,735.00	222,799.28	805,935.72	2.50	2,014,839.30	
D311505	Phillips	ARRA	F	166,643.00	3,408.78	163,234.22	2.00	326,468.44	
D311543	Pickrell			182,702.00	0.00	0.00	2.00	0.00	
D311532	Platte Center			170,000.00	0.00	68,325.00	2.25	153,731.25	
D311051	Plattsmouth		F	1,491,112.00	562,465.39	928,646.61	3.00	2,785,939.83	
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00	
D311518	Plattsmouth		F	872,957.00	12,500.00	860,457.00	2.00	1,720,914.00	
D311513	Pleasant Dale	ARRA	F	106,126.00	4,343.73	101,782.27	2.00	203,564.54	
D311438	Republican City		F	1,057,060.00	958,902.71	98,157.29	3.00	294,471.87	
D311542	Rogers			77,280.00	0.00	0.00	2.00	0.00	
D311218	Saint Paul	ARRA	F	606,000.00	11,461.60	594,538.40	2.38	1,415,001.39	
D311053	Schuyler	ARRA		1,599,000.00	0.00	1,414,652.00	2.00	2,829,304.00	
D311334	Scotia		F	467,415.00	55,826.63	411,588.37	2.57	1,057,782.11	
D311501	Shelby	ARRA	F	177,707.00	0.00	177,707.00	2.00	355,414.00	
D311537	Shelby			1,045,680.00	0.00	119,004.00	2.00	238,008.00	
D311056	Sidney		F	1,156,000.00	896,476.31	259,523.69	3.00	778,571.07	

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE
D311351	Sidney		F	7,975,000.00	2,432,812.64	5,542,187.36	2.52	13,966,312.15	
D311057	So. Sioux City		F	267,732.00	134,821.65	132,910.35	3.00	398,731.05	
D311268	So. Sioux City		F	1,331,150.00	502,862.09	828,287.91	3.00	2,484,863.73	
D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00	
D311391	Stamford		F	100,000.00	17,209.93	82,790.07	2.83	234,295.90	
D311058	Stanton		F	344,991.00	238,949.40	106,041.60	3.00	318,124.80	
D311059	Stanton Co. SID #1		F	353,805.00	93,687.92	260,117.08	4.00	1,040,468.32	
D311146	Stapleton		F	95,953.00	45,661.00	50,292.00	3.01	151,378.92	
D311060	Stratton		P	167,492.00	167,492.00	0.00	3.00	0.00	
D311336	Stratton		P	1,001,000.00	1,001,000.00	0.00	2.75	0.00	
D311539	Stromsburg			1,497,724.00	0.00	68,238.00	2.00	136,476.00	
D311502	Sutherland	ARRA		1,081,321.00	0.00	970,793.00	2.00	1,941,586.00	
D311089	Tecumseh		F	478,982.00	215,826.58	263,155.42	3.00	789,466.26	
D311077	Tekamah		F	1,247,818.00	382,787.32	865,030.68	3.00	2,595,092.04	
D311068	Utica		F	458,699.00	221,305.80	237,393.20	3.00	712,179.60	
D311126	Valentine		F	450,000.00	159,029.07	290,970.93	3.00	872,912.79	
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00	
D311522	Wahoo	ARRA	F	299,274.00	5,954.01	293,319.99	2.00	586,639.98	
D311071	Waterloo		F	297,522.00	162,931.61	134,590.39	3.36	452,223.71	
D311375	Wauneta			281,600.00	0.00	0.00	2.11	0.00	
D311276	Wausa		F	289,083.00	82,303.59	206,779.41	3.00	620,338.23	
D311538	Wausa			245,600.00	0.00	0.00	2.25	0.00	
D311519	Wayne	ARRA		800,000.00	0.00	718,570.00	2.00	1,437,140.00	
D311066	Wood River		F	424,100.00	18,976.46	405,123.54	3.68	1,490,854.63	
D311497	Wymore	ARRA	F	1,489,829.00	30,000.00	1,459,829.00	2.00	2,919,658.00	
D311520	York	BASE		309,100.00	0.00	0.00	2.00	0.00	
D311520	York	ARRA		2,111,042.00	45,000.00	1,880,933.00	2.00	3,761,866.00	
	TOTAL			**155,850,884.00**	**41,605,318.37**	**96,111,644.63**		**263,030,655.33**	**2.737**

ATTACHMENT 2
DWSRF BINDING COMMITMENTS

COMMUNITY NAME	PROJECT #D31	SMALL SYSTEM (<10,000)	FISCAL YEAR 2010 1st QTR	FISCAL YEAR 2010 2nd QTR	FISCAL YEAR 2010 3rd QTR	FISCAL YEAR 2010 4th QTR	FISCAL YEAR 2011 1st QTR	FISCAL YEAR 2011 2nd QTR	FISCAL YEAR 2011 3rd QTR	FISCAL YEAR 2011 4th QTR
AUBURN ARRA	1499	X	6,006,000							
GERING ARRA AMD #1	1026	X	2,350,223							
OAKLAND	1503	X	125,000							
BENNET ARRA	1399	X	683,000							
SUTHERLAND ARRA	1502	X	1,421,669							
ALDA ARRA	1517	X	250,878							
ALDA	1224	X	697,000							
SCHUYLER ARRA	1053	X	2,132,000							
WYMORE ARRA	1497	X		2,070,000						
LAUREL ARRA	1504	X		476,355						
PLEASANT DALE ARRA	1513	X		136,000						
DALTON ARRA	1506	X		308,110						
FRIEND ARRA	1512	X		275,850						
OSCEOLA ARRA	1500	X		496,192						
PHILLIPS ARRA	1505	X		326,161						
NORTH LOUP ARRA	1515	X		312,000						
SHELBY ARRA	1501	X		305,000						
MUD ARRA AMD #1	1498									
BRADSHAW ARRA	1288	X		275,000						
CLARKS	1509	X		760,000						
PLATTSMOUTH	1518	X		1,096,000						
BRIDGEPORT ARRA AMD #1	1404	X		11,830						
WAYNE ARRA	1519	X		1,050,000						
BELLWOOD ARRA	1516	X		237,850						
ALLIANCE	1511	X		696,258						
ALLIANCE ARRA	1496	X		5,158,662						
WAHOO	1522	X		407,190						
GERING ARRA AMD #2	1026	X			718,692					
YORK ARRA	1520	X			3,226,856					
GRESHAM	1467	X			200,000					
BENNET ARRA AMD #1	1399	X			42,000					
FULLERTON	1535	X				400,000				
FIRTH	1536	X				350,000				
ADMINISTRATION										
HICKMAN	1521	X					3,086,309			
CEDAR KNOX	1524	X					134,090			
BLAIR	1530	X					2,341,400			
DORCHESTER	1240	X					1,814,893			
BEATRICE	1538						740,000			
DALTON ARRA AMD #1	1506	X					85,937			
KEARNEY	1540						240,000			
BRIDGEPORT	1529	X						1,164,916		
ROGERS	1542	X						96,600		
ALBION	1152	X						352,500		
WAUNETA	1375	X						201,000		
PICKRELL	1543	X							228,377	
NORTH LOUP ARRA AMD #1	1515	X							565	
BELLWOOD ARRA AMD #1	1516	X							10,800	
PLATTE CENTER	1532	X							212,500	
STROMSBURG	1539	X							1,594,448	
SHELBY	1537	X							1,196,600	
OSCEOLA	1533	X							1,284,550	
HOLSTEIN	1544	X								256,600
WAUNETA AMD #1	1375	X								151,000
CARROLL	1456	X								154,440

		SMALL	FISCAL YEAR 2010				FISCAL YEAR 2011			
COMMUNITY NAME	PROJECT #D31	SYSTEM (<10,000)	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
HUMBOLDT	1109	X								2,570,500
WAUSA	1527	X								307,000
HUMPHREY	1545	X								2,288,242
ADMINISTRATION										
(1) BINDING COMMITMENT TOTALS			**13,665,770**	**14,398,458**	**4,187,548**	**750,000**	**8,442,629**	**1,815,016**	**4,527,840**	**5,727,782**
(2) CUMUMLATIVE BINDNG COMMITMENTS			**143,797,565**	**158,196,023**	**162,383,571**	**163,133,571**	**171,576,200**	**173,391,216**	**177,919,056**	**183,646,838**
FY BINDING COMMITMENT TOTALS					**FY2010:**	**33,001,776**			**FY2011:**	**20,513,267**
(3) REQUIRED BINDING COMMITMENT*			**8,407,280**		**19,500,000**		**8,137,280**			
(4) CUMULATIVE REQUIRED AMOUNT			**106,933,477**	**106,933,477**	**126,433,477**	**126,433,477**	**134,570,757**	**134,570,757**	**134,570,757**	**134,570,757**
(5) BC AS % OF REQ'D BC AMOUNT			**134.47**	**147.94**	**128.43**	**129.03**	**127.50**	**128.85**	**132.21**	**136.47**

*100% OF CAPITALIZATION GRANT LESS SET-ASIDE PLUS MATCH, LAGGED BY 1 YEAR FROM PAYMENT

NOTE: THE REQUIRED BINDING COMMITMENT WAS INCREASED BY $3,654,323 TO ACCOUNT FOR A GRANT AMENDMENT ADDING BACK THE LAND ACQUISITION SET-ASIDE FOR FY97 THROUGH FY02, $800,410 for FY03, and $865,710 for FY06.

ATTACHMENT 3

AUDIT REPORT OF THE
NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING
FUND PROGRAM**

JULY 1, 2009 THROUGH JUNE 30, 2010

Issued on December 6, 2010

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

TABLE OF CONTENTS

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. Neb. Rev. Stat. §§ 71-5314 to 71-5327 created the Drinking Water State Revolving Fund Act. The Federal Safe Drinking Water Act and State statutes established the Drinking Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low interest loans to finance the entire cost of qualified projects. The Program provides a flexible financing source which can be used for a variety of projects. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities have 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2010, the EPA had awarded $108 million in capitalization grants to the State, plus $19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this $108 million required the State to contribute approximately $22 million in matching funds. The State provided appropriations to contribute $2.33 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds of $5,530,000 in June 2000, $1,815,000 in March 2001, $2,000,000 in December 2002, $1,700,000 in June 2003, $1,890,000 in September 2004, $1,920,000 in August 2005, $1,915,000 in June 2006, $1,920,000 in September 2007, and $1,965,000 in October 2008. The 2009 Capitalization grant was matched with $1,629,000 of Administrative Cash Funds.

The Program is administered by the Nebraska Department of Environmental Quality (Department) and the Nebraska Department of Health and Human Services – Division of Public Health. The Department's primary activities with regard to the Program include the making of loans for facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department and the Program's Intended Use Plan. The Nebraska Department of Health and Human Services – Division of Public Health sets the funding priorities.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

An exit conference was held November 10, 2010, with the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program to discuss the results of our examination. Those in attendance for the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program were:

NAME	TITLE
Tom Lamberson	Deputy Director
Martie Guthrie	Budget Officer III
Pat Rice	Assistant Director, Water Quality Division
Mark B. Herman	Compliance Specialist
Kris Young	Accountant III
Amy Wilson	State Accounting, Fixed Assets
Curtis Youngman	State Accounting, Federal Grants Auditor
Rick Bay	Financial Assistance Section Supervisor
Steven McNulty	Environmental Engineer II, DHHS

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Environmental Quality (Agency) - Drinking Water State Revolving Fund Program, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Financial Statement Errors:*** Errors were noted in the financial information prepared by the Agency's accounting staff and were also noted on the trial balances prepared by the Agency. Trial balance amounts are carried forward to the financial statements.

2. ***Loan Testing:*** Documentation of loan files could be improved.

3. ***Reporting:*** Certain Federal reports were not filed with the EPA and control procedures over reports could be improved.

4. ***20% State Match Requirements:*** State match was not deposited into the Fund before Federal funds were drawn.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Agency to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

COMMENTS AND RECOMMENDATIONS

1. Financial Statement Errors

Sound accounting practice and a good internal control plan require financial information and report disclosures to be complete and accurate. The accounting staff should have an understanding of all entries and supporting documentation for all numbers included on the financial statements. Sound accounting practice further requires correct calculations of data included in the financial information. Good internal controls also require that pre-audit procedures be in place to ensure expenditure coding is correct for fund, object account, and business unit.

Numerous errors were noted on the trial balances prepared by the Nebraska Department of Environmental Quality (Agency) and provided to us for the Drinking Water State Revolving Fund (DWSRF). The trial balance financial information originally provided to us did not balance between the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. During our review of the financial data it was determined two main reasons for this seem to be there was not a regular accounting for the transactions in the DWSRF bond account and transactions in the State accounting systems were not always recorded correctly and errors, when made, were not detected in a timely manner. For example, an error in recording a loan receivable of $974,179 was made in EnterpriseOne (E1-the State's accounting system) on May 25, 2010, which went undetected by the Agency. The loan receivable transaction recorded in E1 in error resulted in cash being overstated by $974,179 in the Clean Water State Revolving Fund (CWSRF) and understated by $974,179 in the DWSRF. This undetected error, in large part, was the reason for the financial statements for the DWSRF not balancing.

During our fiscal year ended June 30, 2009, audit the Auditor of Public Accounts (APA) reported similar problems that the Agency had in the preparation of the financial statements for the DWSRF accrual basis financial statements. The DWSRF fiscal year ended June 30, 2009, report was not issued until June 2, 2010. At that time the Agency responded to our comment as follows: *During the period of this audit report, NDEQ experienced a changeover of key financial personnel who were responsible for revolving fund transactions and reporting. New personnel took over these duties with minimal cross training, and were required to find documentation for transactions they had not previously been responsible for under tight timeframes. Management recognizes the importance of accurate, timely and complete financial statement presentation. We have taken steps to ensure reconciliations of general ledger accounts are done on a regular basis and documented with adequate supporting explanations. Additional financial staff are involved in the financial statement preparation and reconciliation of accounts to provide good internal control, cross training of personnel, and accurate statement presentation in the future.*

In the short time since the fiscal year ended June 30, 2009, report was issued the APA believes the Agency's staff has made strides in understanding and preparing accrual basis statements for DWSRF. However, ensuring staff understand financial transactions and ensuring those transactions are recorded accurately in E1, performing a regular reconciliation of the DWSRF

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Financial Statement Errors</u> (Concluded)

bond account and ensuring a sound understanding of the worksheets used to prepared the DWSRF accrual basis financial statement trial balances would further enhance the Agency's ability to prepare annual accrual financial statements for the DWSRF as required by the Environmental Protection Agency (EPA).

The financial statements were adjusted for the errors noted.

Without strong internal control procedures to ensure financial information is complete, accurate, and in accordance with accounting standards, there is a risk of misstated financial statements.

> We recommend the Agency develop procedures to ensure transactions are recorded correctly in E1 and that accounting staff continue to work on understanding those financial transactions and understanding the worksheets used to prepare the accrual financial statement trial balances for the DWSRF. In addition, we recommend the Agency develop procedures to regularly reconcile the DWSRF bond account to help ensure all bond transactions are recorded in the preparation of the annual accrual financial statements.

Management Response: NDEQ Management recognizes the importance of accurate, timely and complete financial statement presentation.

Corrective Action Plan: We have taken steps to ensure reconciliations of general ledger accounts are done on a regular basis and documented with adequate supporting explanations. Additional financial staff are involved in the financial statement preparation and reconciliation of accounts to provide good internal control, cross training of personnel, and accurate statement presentation in the future.

A mid-year trial balance and financial statements will be prepared to aid in the accuracy of general ledger activities and help provide additional training to involved staff.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: February 1, 2011, for mid-year trial balance and financial statements. Reconciliations, cross training, internal controls is ongoing.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Loan Testing

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) and ARRA – Subrecipient Monitoring, Davis-Bacon Act, Procurement, and Suspension and Debarment

Grant Number & Year: All open grants, including FS-99780509 and 2F-97705601

Federal Grantor Agency: U.S. Environmental Protection Agency (EPA)

Criteria: 2 C.F.R. § 176.210(c) (April 23, 2009) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."

2 C.F.R. § 176.210(d) (April 23, 2009) states, "Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."

A good internal control plan requires procedures be in place to:

- complete a loan award checklist for every project to ensure all administrative and mailing procedures have been completed for all loans awarded,
- complete a documented review of the monthly payroll certifications by the project engineer,
- complete a documented review of the specifications to ensure current wage rates, and
- adequately monitor subrecipients' compliance with Federal requirements, including not doing business with suspended or debarred parties, and for ARRA funds, Buy-American procurement policies.

Condition: Documentation of loan files could be improved.

Questioned Costs: Unknown

Context: During testing it was noted:

- For 4 of 15 loans tested, the loan award checklist was not on file.
- For 4 of 4 loans tested, the review of monthly payroll certifications by the project engineer was not documented. (Davis-Bacon Act)
- For 4 of 4 loans tested, the review of specifications for current wage rates was not documented. (Davis-Bacon Act)

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Loan Testing (Continued)

- For 4 of 4 loans tested, there was no documentation to support subrecipient monitoring of suspended and debarred entities and Buy-American procurement policies. (Suspension and Debarment)
- For 15 of 15 loans tested, the Agency did not separately identify the CFDA number and title, the award name and number at the time of the subaward and disbursement of funds; and for ARRA funding, did not identify the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC. (Subrecipient Monitoring)

Cause: Unknown

Effect: There is an increased potential for noncompliance with Agency Rules and Regulations as well as Federal grant compliance requirements.

Recommendation: We recommend the following:
- A loan award checklist is completed for every loan that is awarded.
- Procedures be improved to ensure documentation is maintained to support a review of:
  - monthly payroll certifications,
  - current wage rate specifications,
  - subrecipient monitoring of suspended and debarred entities,
  - Buy-American procurement policies.
- The Agency separately identify the CFDA number and title, the award name and number at the time of the subaward for all grants and additionally for ARRA funding at the time of disbursement of funds. In addition, for ARRA funding, identify the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC.

Management Response: NDEQ Management recognizes the importance of a good internal control plan for loan processing and monitoring, to ensure necessary steps are completed, as well as compliance with Federal regulations are documented and fulfilled.

Corrective Action Plan: The Agency has begun modification of our internal control plan to implement the suggested recommendations. The Agency has reinstituted a comprehensive loan award checklist for every project. Subrecipient compliance with all Federal requirements will continue to be monitored and documented. Project engineers will initial their reviews of monthly payroll certifications and will document current wage rate compliance during the initial review of specifications and during on-site project inspection visits.

Due to the fluid nature of construction projects, the award name and number at the time of the subaward for all grants may need to be adjusted at the time of disbursement but will be recorded and documented accordingly.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Loan Testing (Concluded)

Contact: Pat Rice, Water Quality Division Assistant Director
Rick Bay, Section Supervisor, Water Quality Financial Assistance Section

Anticipated Completion Date: January 1, 2011

3. Reporting

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) ARRA – Reporting

Grant Number & Year: #2F-97705601 (FFY 2009)

Federal Grantor Agency: U.S. Environmental Protection Agency (EPA)

Criteria: The ARRA grant agreement requires "an Interim Financial Status Report (FSR) is to be submitted to the appropriate EPA Grants Management Office 90 days after the anniversary of the project period start date." Also, a good internal control plan includes a process to ensure the data reported on Federal financial reports agree to financial records and that an adequate supervisory review is documented prior to submission of the report.

Condition: The Nebraska Department of Environmental Quality (Agency) did not submit a FSR for the ARRA grant for the period ended October 1, 2009. It was also noted the Agency did not reconcile amounts reported on the ARRA 1512 Report to accounting records. It was further noted there was no documented supervisory review of the ARRA 1512 Report or the annual report submitted to the EPA.

Questioned Costs: Unknown

Context: Historically, the EPA has not required FSRs for the capitalization grants to be submitted until the close of the grant period. However, for the ARRA grant there is a requirement for an annual FSR. Another requirement for the ARRA grant is that an ARRA 1512 Report is submitted quarterly. The ARRA 1512 reports were submitted; however, the amounts reported were not reconciled to the accounting records. The capitalization grants also require an annual report be filed with the EPA. These annual reports were submitted; however, there was no documented supervisory review of the report.

Cause: Unknown

Effect: There is potential noncompliance with Federal regulations and an increased risk of incorrect reporting.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Reporting (Concluded)

Recommendation: We recommend the Agency improve reporting procedures to:

- submit annual FSRs for the ARRA grant,
- reconcile amounts reported on Federal reports, such as the ARRA 1512 Report, to accounting records, and
- document a supervisory review of all reports prior to submission.

Management Response: Management recognizes the importance of timely filing of required reports, as well as documented reconciliation of submitted numbers to accounting records.

Corrective Action Plan: Annual 10/1/09 and 10/1/10 Interim Federal Financial Reports (FFR) for the DWSRF ARRA grant have been filed with the EPA. The FFR filed has the signature of Martie Guthrie, Budget Officer III, who has verified the information reported reconciles to the State Accounting system.

The 1512 report information is reconciled to the State Accounting system and provided to programs for reporting by Martie Guthrie, Budget Officer III. The program inputs the information onto NE.gov. The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date. Any information that is questioned is reviewed and changed if necessary. The 1512 report will also be reviewed, and approval documented by Rick Bay, Section Supervisor, Water Quality Financial Assistance Section.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

APA Response: The Agency's response to our comment and recommendation noted above indicated: "The 1512 report information is reconciled to the State Accounting system and provided to programs for reporting by Martie Guthrie, Budget Officer III." They also noted: "The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date." The Agency prepares its 1512 report from a separate record-keeping system specifically designed for the program and there was no reconciliation between the 1512 report prepared from this system and amounts recorded in the State Accounting System. As a result there was an error in the 1512 report in the amount of $212,136 as submitted by the Agency. We believe a reconciliation between the Agency's separate record-keeping system for the program and the State Accounting System would have caught this error. We understand this error was detected by State Accounting staff, not by Agency staff. Controls to ensure accurate 1512 reporting should be performed at the Agency before it is submitted to State Accounting and the EPA.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. 20% State Match Requirements

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) – Matching

Grant Number & Year: #FS-9970509 (FFY 2009)

Federal Grantor Agency: U.S. Environmental Protection Agency (EPA)

Criteria: 40 C.F.R. 35.3550(g)(2) (July 1, 2009) requires "a State must deposit the match into the Fund on or before the date that a State receives each payment for the capitalization grant."

Condition: The Nebraska Department of Environmental Quality (Agency) did not deposit the 20% State match into the DWSRF trust fund on or before they received the first payment for the capitalization grant.

Questioned Costs: Not Applicable

Context: The State match was met with three journal entries to transfer money from the cash fund (28630) to the trust fund (68483) for reimbursement payments to communities totaling $1,629,200 made during the period March 24, 2010, through April 13, 2010. However the first drawdown of the Federal grant was February 17, 2010.

Cause: Unknown

Effect: There is an increased risk of noncompliance with Federal regulations.

Recommendation: We recommend the Agency ensure the State match is deposited in accordance with 40 C.F.R. 35.3550(g)(2) as noted above.

> **Management Response:** The 20% State Match for the 2009 capitalization grant was met with administrative cash funds and therefore had no bearing on the trust fund (as it would, had the match been met by bonding). Capitalization grant match is an allowable use of the administrative cash funds. While management agrees the segregation of the 20% cash match would be prudent, in the agencies opinion, we had match funds on hand in the program funds in order to allow the Agency to begin expending the 2009 capitalization grant funds at the time they began to be paid out.
>
> **Corrective Action Plan:** The Agency will take note to segregate the cash match funds in a separate administration fund in the future, should we choose to cash match a grant again.
>
> **Contact:** Martie Guthrie, Budget Officer III
>
> **Anticipated Completion Date:** Completed

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITORS' REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the accompanying financial statements of the business type activities of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program, as of and for the year ended June 30, 2010, which collectively comprise the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program, are intended to present the financial position and changes in financial position of only that portion of the business type activities of the State that is attributable to the transactions of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program. They do not purport to, and do not, present fairly the financial position of the business type activities of the State of Nebraska as of June 30, 2010, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010, on our consideration of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, we have also issued our report dated November 10, 2010, on our consideration of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's compliance with certain provisions of laws, regulations, and grants.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's basic financial statements. Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Signed Original on File

November 10, 2010

Don Dunlap, CPA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) - Drinking Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2010. This analysis has been prepared by management of the Department, and is intended to be read in conjunction with the Program's financial statements and related footnotes that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 1) Balance Sheet, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Balance Sheet presents information on all of the Program's assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Program's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents the Program's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the Program's cash receipts and payments during the year.

The Notes to the Financial Statements are an integral part of the financial statements and provide information that is essential to a full understanding of the data provided in the financial statements.

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Assets

For the fiscal year ended June 30, 2010, net assets of the Program increased by 25%. Revenues for the Program increased 2% while expenses increased by 370% due to ARRA principal forgiveness.

NET ASSETS

	2010	2009	% Change
Current Assets	$ 48,078,694	$ 44,102,743	9%
Noncurrent Assets	80,611,326	63,068,337	28%
Total Assets	128,690,020	107,171,080	20%
Current Liabilities	1,619,054	1,603,902	1%
Noncurrent Liabilities	13,110,000	14,405,000	(9%)
Total Liabilities	14,729,054	16,008,902	(8%)
Net Assets:			
Restricted	1,968,875	1,968,875	-%
Unrestricted	111,992,091	89,193,303	26%
Total Net Assets	$ 113,960,966	$ 91,162,178	25%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

	2010	2009	% Change
Loan Fees Administration	$ 732,680	$ 716,611	2%
Interest	3,440,707	3,356,248	3%
Total Operating Revenues	4,173,387	4,072,859	2%
Administration	2,371,214	1,770,039	34%
Bond Expenses	660,133	681,194	(3%)
ARRA Principal Forgiveness	8,481,804	-	100%
Total Operating Expenses	11,513,151	2,451,233	370%
Operating Income	(7,339,764)	1,621,626	(553%)
Capital Federal Grants	14,422,710	4,924,230	193%
Capital Contributions ARRA Grants	15,715,842	-	100%
Change in Net Assets	22,798,788	6,545,856	248%
Net Assets, Beginning of Year	91,162,178	84,616,322	8%
Net Assets, End of Year	$ 113,960,966	$ 91,162,178	25%

The most significant changes from the fiscal year ended June 30, 2009, to the fiscal year ended June 30, 2010, were the Noncurrent Assets balance, Change in Net Assets and the amount received from Capital Contributions. The American Recovery and Reinvestment Act (ARRA) funds received by the agency of $15.7 million permitted additional community loans to be made. It also added a principal forgiveness component totaling $8.5 million, which increased operating expenses. Federal funds will vary each year depending on the size of each draw, the timing of each draw, the number of communities applying for loans, and the number of loans successfully processed. Changes are inherent in the Drinking Water program and are expected when draws are based on community requests.

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline and Nebraska's economy has and will likely continue to impact the future net revenues of the State. Tax revenues continue to fall short of projections. How the Program's revenue will be affected by the current national economic decline and market freefall is unknown. The Program is included in the American Recovery and Reinvestment Act of 2009. The Drinking Water State Revolving Fund received $19.5 million in additional grants to be used for community loans. The ARRA funding does not require a State match.

Having higher rates on loan repayment and lower interest rates on new loans may contribute to lower revenues. A larger State investment pool balance and more total dollars of loans may contribute to offsetting lower revenues.

DEBT ADMINISTRATION

Long-Term Debt

The Drinking Water State Revolving Fund had long-term debt activity during the fiscal year as shown above in the line titled Noncurrent Liabilities in the Net Assets section. See the Notes to the Financial Statements for more detailed information on the Bonds Payable, which represents the Fund's long-term debt activity for the year.

AMERICAN RECOVERY AND REINVESTMENT ACT

The Nebraska State Drinking Water Revolving Fund Program received $19.5 million in American Recovery and Reinvestment Act (ARRA) funding for upgrades to public water systems. ARRA provides new, one-time funding, which is combined with existing funds from the Drinking Water State Revolving Fund. The Nebraska Department of Health and Human Services (DHHS) Division of Public Health sets the funding priorities.

Fifty percent of the ARRA funding is made available in the form of low-interest loans to communities at 3 percent. The remaining fifty percent is issued as principal forgiveness per ARRA guidelines. Due to the fact that regular SRF capitalization grant funds were used as supplements to most of the ARRA projects, the average ARRA funded projects were made up of 75 percent loans and 25 percent principal forgiveness.

DHHS ranked the State's public water supply needs using the fund's established ranking system, with some modifications made to direct funds to projects that were further along in the planning stages. ARRA requires 20 percent of recovery funds go to water efficiency projects, such as water meter installation.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
June 30, 2010

		Enterprise Fund
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents:		
Cash in State Treasury (Note 2)	$	28,365,005
Amounts Held by Trustee (Note 2)		12,447,166
Interest Receivable		99,650
Loans Receivable (Note 3)		7,166,873
TOTAL CURRENT ASSETS		48,078,694
NON-CURRENT ASSETS		
Loans Receivable (Note 3)		80,611,326
TOTAL NON-CURRENT ASSETS		80,611,326
TOTAL ASSETS	$	128,690,020
LIABILITIES		
CURRENT LIABILITIES		
Accrued Bond Interest Payable	$	324,054
Bonds Payable (Note 4)		1,295,000
TOTAL CURRENT LIABILITIES		1,619,054
NON-CURRENT LIABILITIES		
Bonds Payable (Note 4)		13,110,000
TOTAL NON-CURRENT LIABILITIES		13,110,000
TOTAL LIABILITIES		14,729,054
NET ASSETS		
Restricted for Bond Payments		1,968,875
Unrestricted		111,992,091
TOTAL NET ASSETS		113,960,966
TOTAL LIABILITIES AND NET ASSETS	$	128,690,020

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

		Enterprise Fund
OPERATING REVENUES:		
Loan Fees Administration (Note 6)	$	732,680
Interest on Loans		2,158,458
Interest on Fund Balance - Trustee		367,817
Interest on Fund Balance - State Operating Investment Pool (Note 7)		914,432
TOTAL OPERATING REVENUES		4,173,387
OPERATING EXPENSES:		
Administration From Fees (Note 9)		522,862
4% Administrative Costs from Grant		11,181
15% Source Water Assessment Program (Note 9)		580,011
2% Technical Assistance to Small Systems (Note 9)		215,490
10% Public Water Supply System (Note 9)		478,803
30% Loan Forgiveness (Note 9)		445,841
50% Principal Forgiveness ARRA (Note 9)		8,481,804
Bond Rebate Fee Expense		117,026
Interest Expense - State Match Bonds (Note 9)		660,133
TOTAL OPERATING EXPENSES		11,513,151
OPERATING INCOME		(7,339,764)
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS		14,422,710
CAPITAL CONTRIBUTIONS - ARRA FEDERAL GRANTS		15,715,842
CHANGE IN NET ASSETS		22,798,788
TOTAL NET ASSETS, BEGINNING OF YEAR		91,162,178
TOTAL NET ASSETS, END OF YEAR	$	113,960,966

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

		Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers	$	8,446,580
Interest on Investments		1,261,614
Payments to Borrowers		(16,086,608)
Payments to Borrowers ARRA		(7,234,040)
Payments for Administration		(534,043)
15% Source Water Assessment Program		(580,011)
2% Technical Assistance to Small Systems		(215,490)
10% Public Water Supply System		(478,803)
Loan Forgiveness		(445,841)
Principal Forgiveness ARRA		(8,481,804)
Bond Principal Payments		(1,255,000)
Bond Interest Payments		(684,981)
Bond Rebate		(117,026)
NET CASH PROVIDED BY OPERATING ACTIVITIES		(26,405,453)
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:		
Funds Received From the Environmental Protection Agency		14,422,710
ARRA Funds Received From the Environmental Protection Agency		15,715,842
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES		30,138,552
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		37,079,070
CASH AND CASH EQUIVALENTS, END OF YEAR	$	40,812,169
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$	(7,339,764)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
(Increase)/Decrease in Loans Receivable		(17,765,204)
(Increase)/Decrease in Interest Receivable		(20,635)
Increase/(Decrease) in Bonds Payable		(1,255,000)
Increase/(Decrease) in Accrued Interest on Bonds		(24,848)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	(26,405,451)

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Department) - Drinking Water State Revolving Fund Program (Program) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS) and the Trustee (Wells Fargo Bank, Iowa) for the State match bond accounts.

B. Reporting Entity

The Drinking Water State Revolving Fund Program is a program within the Department and is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act of the State of Nebraska. The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Program's management has considered all potential component units of the Program for which it is financially accountable, and other organizations which are fiscally dependent on the Program, or the significance of their relationship with the Program are such that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the

1. Summary of Significant Accounting Policies (Continued)

purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The Program on the State accounting system includes the following funds as identified in the Drinking Water State Revolving Fund Act:

- Drinking Water Facilities Funds – General Fund 10000, Federal Funds 48416, 48417, and 48418, and Bond Funds 68480, 68481, 68482, 68483, and 68484.

- Drinking Water Administration Fund – Cash Fund 28630.

These funds are used to account for revenues and expenses for loans and administrative expenses of the Program.

The activity of these State of Nebraska funds have been combined and reported as an enterprise fund, which under governmental GAAP is a proprietary fund type. This fund type reflects transactions used to account for those operations that are financed and operated in a manner similar to a private business. The accounting for the Program's transactions in this manner is a requirement of the Environmental Protection Agency (EPA) as they and the Department have decided that the determination of revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA the Program will be available in perpetuity as intended.

This fund classification differs from the classification used in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). The CAFR classifies the Cash funds, Federal funds, and Bond funds as Special Revenue funds because the major source of revenue is Federal assistance.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. An enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Enterprise funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In reporting the financial activity of its enterprise fund, the Program's management applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989; unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2010, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and Cash Equivalents 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 these investments is allocated to funds based on their percentage of the investment pool.

Amounts Held by Trustee are considered cash equivalents due to their liquid nature.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Drinking Water Program is funded, on average, 83.33% from Federal capitalization grants and 16.67% from State matching funds, except American Recovery and Reinvestment Act (ARRA) funds. ARRA funds do not require State matching funds. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced, and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and accrued interest during the project period. The interest rates on loans range from 2.0% to 4.3% and the terms are

1. Summary of Significant Accounting Policies (Concluded)

between 5 to 20 years. Disadvantaged communities may have up to 30 years to repay. The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2010, which is collectible in fiscal year 2011.

No provisions were made for uncollectible accounts as all loans were current and management believed all loans would be repaid according to the loan terms. There was a provision for the Program to intercept State aid to a community in default of its loan.

G. Restricted Net Assets

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources, as they are needed. Net Assets are reported as restricted when they are held in a separate account that can be used to pay debt principal and interest only and cannot be used to pay other current liabilities.

H. 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 assets and liabilities at fiscal year end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash in State Treasury and Amounts Held by Trustee

Cash in State Treasury as reported on the balance sheet is under the control of the Nebraska State Treasurer or other administrative bodies as determined by law. Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio including investment policies, risks, and types of investments can be found in the State of Nebraska's CAFR for the fiscal year ended June 30, 2010. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Drinking Water State Revolving Fund Program were designated for investment during fiscal year 2010. Amounts are allocated on a monthly basis based on average balances of all invested funds.

2. **Cash in State Treasury and Amounts Held by Trustee** (Continued)

Amounts Held by Trustee. The Nebraska Investment Finance Authority (NIFA) (the "Issuer") issues revenue bonds, the proceeds which are used by the Department to provide the 20% match requirements for the Department's Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank Iowa, National Association (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Bond Indenture. At June 30, 2010, the amount held by the Trustee of $12,447,166 was considered cash and cash equivalents and was stated at fair value, except for the amounts invested in Guaranteed Investment Contracts (GICs), where no readily ascertainable fair value was available. For this investment, the Program manager received an estimate of fair value from the Trustee. The amount held by the Trustee consisted of the following:

	Fair Value
Cash	$ 2,279
Money Market Account	6,836,789
Guaranteed Investment Contracts (GICs) in CDC Funding Corporation	5,608,098
TOTAL	$ 12,447,166

The amounts shown as cash and as a money market account above are deposits as defined by GASB. As such, those deposits have custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Program's deposits may be lost. Of the $6,839,068 in deposits held by the Trustee, $250,000 was covered by FDIC insurance and $6,589,068 was uninsured and uncollateralized during and at the end of the fiscal year ended June 30, 2010, and thus exposed to custodial credit risk. The Program does not have a custodial credit risk policy for deposits.

The Program monies identified in this section are held and invested by the Trustee in its capacity as trustee for the bonds as specified in the Master Trust Indenture Section 5.07 dated as of June 1, 2000. That document defines "Investment Obligations" as:

(a) direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America;

(b) bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America;

2. Cash in State Treasury and Amounts Held by Trustee (Continued)

(c) interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) to (b), inclusive, of this definition, or a combination thereof;

(d) money market funds or similar fund which invests exclusively in obligations described in clause (a), (b), or (e) of this definition, or a combination thereof;

(e) bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority of body or instrumentality thereof which constitute obligations described in Section 103(a) of the Code which have a fixed par value and a fixed amount due at maturity and on call dates and are either rated “MIG 1” by Moody’s and rated “SP-1+” by Standard & Poor’s for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor’s and by Moody’s;

(f) any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under laws of any state, or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding bond, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;

(g) investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a state banking association which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United State branch or agency of a foreign bank, which foreign bank consents to in personam jurisdiction and which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds; or

(h) obligations of an insurance company which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds.

2. **Cash in State Treasury and Amounts Held by Trustee** (Concluded)

The amounts held by the Trustee in GICs were investments as defined by GASB. The Trustee, in accordance with the Series 2000A Supplemental Bond Indenture invests funds in a private debt obligations fund, which is considered a debt security. This debt security has the following risks:

- Credit Risk – Credit risk is a risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization. The GIC fund was unrated by Standard & Poor’s Rating Group and Moody’s Investors Service Inc.

- Custodial Credit Risk of Investments – Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.

- Concentration of Credit Risk – When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 100% of its total investments in the GIC fund.

The Program did not have a custodial credit risk policy for debt securities.

3. **Loans Receivable**

As of June 30, 2010, the Program had 115 outstanding balances totaling $87,778,199. The outstanding balances of the ten communities with the largest loan balances, which represents 60% of the total loans, were as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. **Loans Receivable** (Concluded)

City	Outstanding Balance
Kearney	$ 9,667,606
McCook	8,125,585
North Platte	6,910,448
Sidney	6,357,979
Metropolitan Utilities Dist	4,925,541
Gering	4,572,086
Blair	3,997,054
Alliance	3,256,873
Beaver Lake Association	2,702,960
Broken Bow	1,723,833
TOTAL	$ 52,239,965

4. **Bonds Payable**

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the State's Drinking Water Program. NIFA issues the bonds and the proceeds are held by the Trustee until they are needed by the Program for loan purposes. The Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, and 2008A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, and 2008A Bonds are revenue bonds. The Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, and 2008A Bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged for the payment of the principal of, premium, if any, or the interest on the Series 2000A, 2001A, 2002A, 2003A, 2004A, 2005A, 2006A, 2007A, and 2008A Bonds. The current bonds payable amount was determined using the amount of bond principal to be retired in fiscal year 2010. Bonds payable for the fiscal year ended June 30, 2010, is as follows:

	Beginning Balance	Additions	Retirement	Ending Balance	Current Portion
Bonds Payable	$ 15,660,000	$ -	$ 1,255,000	$ 14,405,000	$ 1,295,000

4. **Bonds Payable** (Concluded)

Bonds payable at June 30, 2010, consist of the following:

Series	Original Issue	Retirements	2010 Balance	Interest Rate	Final Maturity Date
2000A	$ 5,530,000	$ 2,485,000	$ 3,045,000	4.8-5.7%	July 1, 2015
2001A	1,815,000	795,000	1,020,000	3.9-5.15%	Jan. 1, 2016
2002A	2,000,000	790,000	1,210,000	1.8-4.6%	Jan. 1, 2017
2003A	1,700,000	595,000	1,105,000	1.3-3.8%	Jan. 1, 2018
2004A	1,890,000	525,000	1,365,000	1.6-4.75%	July 1, 2019
2005A	1,920,000	405,000	1,515,000	2.75-4.2%	July 1, 2020
2006A	1,915,000	330,000	1,585,000	3.6-4.3%	Jan. 1, 2021
2007A	1,920,000	215,000	1,705,000	3.5-4.35%	Jan. 1, 2022
2008A	1,965,000	110,000	1,855,000	2.75-5.0%	Jan. 1, 2023

The 2000A Series Bonds were issued June 29, 2000, the 2001A Series Bonds were issued March 28, 2001, the 2002A Series Bonds were issued December 19, 2002, the 2003A Series Bonds were issued June 19, 2003, the 2004A Series Bonds were issued September 16, 2004, the 2005A Series Bonds were issued August 15, 2005, the Series 2006A Bonds were issued June 8, 2006, the Series 2007A Bonds were issued September 28, 2007, and the Series 2008A Bonds were issued October 3, 2008. Bonds mature at various intervals through January 2023. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 1,295,000	$ 634,565	$ 1,929,565
2012	1,360,000	580,084	1,940,084
2013	1,410,000	521,223	1,931,223
2014	1,465,000	458,485	1,923,485
2015	1,515,000	391,319	1,906,319
2016-2020	6,145,000	892,658	7,037,658
2021-2023	1,215,000	87,215	1,302,215
TOTAL	$ 14,405,000	$ 3,565,549	$ 17,970,549

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Net Assets

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the EPA capitalization grants awarded, drawn, and the remaining balance as of June 30, 2010. The year column relates directly to the grant amount column and represents the year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2010, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1997	$ 12,824,000	$ 12,824,000	$ -
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,139,705	89,295
2008	8,146,000	7,152,588	993,412
2009 ARRA	19,500,000	15,715,842	3,784,158
2009	8,146,000	5,487,728	2,658,272
TOTAL	$ 127,850,726	$ 120,325,589	$ 7,525,137

The 2009 grant was delayed and was not awarded until September 10, 2009, after the end of State fiscal year 2009. Although the 2009 grant was delayed, the grant award allowed the Agency to charge expenditures for projects to the grant effective October 1, 2008.

The following is a summary of changes in the total contributed capital:

Contributed Capital July 1, 2009	$ 92,515,873
Contributed During the Year:	
Funds From EPA	14,422,710
Funds From ARRA	15,715,842
Administrative Cash Funds Match	1,629,000
Contributed Capital June 30, 2010	$ 124,283,425

Also included in the Contributed Capital is a total of all general funds received by the Program from the Nebraska State Legislature. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed $1,162,318 and $1,166,518 in the fiscal years ended June 30, 1998, and 1999, respectively. The State also used $1,629,000 of Administrative Cash Funds to provide the match for the 2009 capitalization grant.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Loan Fees Administration

The reported amount comes from a fee charged to loan recipients each year based on the amount of the loan outstanding. The fee is 1% per annum and is collected semi-annually.

7. Interest on Fund Balance – State Operating Investment Pool

The reported amount represents the earnings the Program received from idle funds invested by the Nebraska State Treasurer with the State's Investment Council. Interest is credited on approximately the twenty-fifth day of each subsequent month.

8. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Program's principal ongoing operations. The principal operating revenue of the Program is the Loan Fees Administration. Interest revenues are also operating revenues since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and loan forgiveness. Interest expenses are also operating expenses since making loans is the primary purpose of the Program.

9. Operating Expenses

The Operating Expenses of the Drinking Water State Revolving Fund Program are classified, for financial reporting purposes, into seven categories. There are four set-aside activities established under § 1452 of the Safe Drinking Water Act. The four set-aside activities are:

- 4% Administration
- 15% Source Water Assessment Program
- 2% Technical Assistance to Small Systems
- 10% Public Water Supply System

The Nebraska Department of Health and Human Services is provided funding under the following set-asides: Administration, Public Water Supply System, Small Systems Technical Assistance, and Source Water Assessment Program. A Memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services to provide support to the Program.

All are required to be federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are 30% Loan Forgiveness, and Interest Expense-State Match Bonds.

9. Operating Expenses (Continued)

Following is an explanation of these categories:

4% Administration

A state may use up to 4 percent of the funds allotted to it for the reasonable costs of administering the program and providing technical assistance. These costs may include such activities as issuing debt; start up costs; audit costs; financial management; legal consulting fees; development of IUP (Intended Use Plan) and priority ranking system; development of affordability criteria; and costs of support services provided by other state agencies. If the state does not obligate the entire 4 percent for administrative costs in one year, it can bank the excess balance and use it for administrative costs in later years. The Department did not expend any of the administration from Federal funds. The Administration costs were paid from loan fee revenues.

15% Source Water Assessment Program

Identified in Federal regulations as local assistance and other state programs, a state may use up to 15% of the capitalization grant amount for specified uses as follows:

- Assistance to a public water system to acquire land or a conservation easement for source water protection purposes;
- Assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- To support the establishment and implementation of wellhead protection programs; and
- To provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A state may use up to 2 percent of its allotment to provide technical assistance to public water systems serving 10,000 people or less. If the state does not use the entire 2 percent for these activities against a given allotment, it can bank the excess balance and use it for the same activities in later years. A state may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

9. Operating Expenses (Concluded)

10% Public Water Supply System

A state may use up to 10 percent of its allotment to:

- Administer the State Public Water Supply System program;
- Administer or provide technical assistance through source water protection programs, which includes the Class V portion of the Underground Injection Control Program;
- Develop and implement a capacity development strategy; and
- Develop and implement an operator certification program.

30% Loan Forgiveness

The amount of expenses reported as Loan Forgiveness is the amount the State forgave loans to communities meeting the definition "disadvantaged" or, which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year's capitalization grant cannot exceed 30 percent of the amount of the capitalization grant for that year.

ARRA provided additional funding in the form of principal forgiveness; however, the grant had different forgiveness regulations than regular base Drinking Water loans. ARRA requires the State to use at least 50 percent of the funds provided by this grant to provide additional subsidization in the form of principal forgiveness.

Interest Expense-State Match Bonds

The amount is interest paid to bond holders at the time bond principal was retired during the fiscal year.

10. State Employees Retirement Plan (Plan)

The single-employer plan became effective by statute on January 1, 1964. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska Legislature.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. State Employees Retirement Plan (Plan) (Concluded)

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees, who have attained the age of twenty years, may exercise the option to begin participation in the retirement system.

Contribution. Per statute, each member contributes 4.8% of his or her monthly compensation. The Department matches the member's contribution at a rate of 156%. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is fully vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the Plan.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single life annuity with five year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the Plan which are actuarially equivalent to the normal form, including the option of lump-sum or partial lump-sum.

For the fiscal year ended June 30, 2010, employees contributed $12,451 and the Department contributed $19,423. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

The State of Nebraska CAFR also includes pension-related disclosures. The CAFR is available from the Nebraska Department of Administrative Services – Accounting Division or on the Nebraska Auditor of Public Accounts website at www.auditors.state.ne.us.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Contingencies and Commitments

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Department, as part of the primary government for the State, participates in the State's risk management program. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and Workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident with a self-insured retention of $300,000 per accident, except for accidents involving vehicular pursuit which have a $1,000,000 self-insured retention per accident. Insurance is also purchased for physical damage and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

B. Life insurance for eligible employees.

C. Crime coverage, with a limit of $31 million for each loss, and a $25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS - Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Program's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Contingencies and Commitments (Concluded)

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

12. Subsequent Event

The State is currently working with NIFA (the relationship as explained in Note 4) to issue Series 2010A Bonds in the amount of $3,110,000 for the purpose of providing the required State match for the 2010 grant. The bond sale was not completed by the end of the fiscal year; however, was tentatively planned to occur on December 2, 2010.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
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*

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. The report was modified to emphasize the financial statements present only the funds of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's 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 misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency that is described in the Comments Section of the report: Comment Number 1 (Financial Statement Errors). 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.

<u>Compliance and Other Matters</u>
As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's 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*.

We noted additional items that we reported to management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program in the Comments Section of this report as Comment Number 2 (Loan Testing), Comment Number 3 (Reporting), and Comment Number 4 (20% State Match Requirements).

The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's response and accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program declined to respond.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program, 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

November 10, 2010

Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY - DRINKING WATER STATE REVOLVING FUND PROGRAM IN ACCORDANCE WITH THE *U.S. ENVIRONMENTAL PROTECTION AGENCY AUDIT GUIDE FOR CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAMS*

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the compliance of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program with the types of compliance requirements described in the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* that were applicable for the year ended June 30, 2010. We audited the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's compliance with requirements governing: Allowability for Specific Activities, Allowable Costs/Cost Principles, Cash Management, State Matching, Period of Availability of Funds and Binding Commitments, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions. Compliance with these requirements is the responsibility of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's management. Our responsibility is to express an opinion on the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's compliance based on our audit.

Compliance

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's compliance with those requirements.

As described in Comment Number 4 (20% State Match Requirements) in the Comments Section of this report, the Nebraska Department of Environmental Quality did not comply with the 20% State Match Requirements that are applicable to its Drinking Water State Revolving Fund Program. Compliance with such requirements is necessary, in our opinion, for the Nebraska Department of Environmental Quality to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Nebraska Department of Environmental Quality complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Drinking Water State Revolving Fund Program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's internal control over compliance with requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the Comments Section of this report as Comment Number 2 (Loan Testing), and Comment Number 3 (Reporting). A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's response and accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program declined to respond.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality, 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

November 10, 2010

Don Dunlap CPA
Assistant Deputy Auditor

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY2011 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
ALBION, CITY OF	New Well w/ Transmission Main	A new 1,300-gallon per minute well will be drilled to the south of the City, near the City's Water Tower. The proposed installation will reduce the length of transmission main to be installed, minimizing project costs. The well will be equipped with a backup power source. The new well will replace the system's three existing wells due to Selenium concerns.	Presently, Albion's public water system consists of three municipal supply wells (Nos. 60-1, 65-1 & 66-1). The wells pump directly into the distribution system with the addition of Fluoride. Beginning in January of 2009 through August of 2010, routine monitoring detected levels of Selenium ranging from 70 to 255 µg/L in all three wells. As a result, a vicinity well sampling and test well program was initiated to develop a replacement water source. A proposed well location was identified to the south, near the systems water tower. A short-term systematic and extensive sampling of the test well showed Selenium levels ranging up to 6.7 µg/L, well below the MCL.	The new well will be equipped with emergency power so that the City will be able to maintain supply pressures during any unforeseen power outages.
BEATRICE, CITY OF	Looping of Water Mains	Development has occurred along Highway 77 in the City's north section. Water service to a significant portion of that area is provided through two dead-end mains. One of those lines will provide service to the City's new hospital. This project is needed to complete a primary loop of the distribution network on the west-northwest section of the distribution system, in order to provide redundancy to the area's water supply to ensure the supply of drinking water on a continuous basis.	N/A	N/A
BLAIR, CITY OF	Water Main Replacements	There are over 65 miles of pipe within the City's distribution system, with approximately 30% being old cast iron water main. The majority of the water mains scheduled for replacement are sections of that old cast iron pipe, which are also undersized and/or substandard due to deterioration. The age and physical deterioration, combined with the undersized pipe dimensions make it necessary to replace the targeted parts of the distribution system and where warranted, provide looping of dead ends or tie-ins within the system.	The replacement of old deteriorated water mains will allow the City to maintain compliance with the Total Coliform Rule.	This project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
BRIDGEPORT, CITY OF	Distribution System Improvements	An extensive amount of water main replacement and looping, including upgrades in pipe sizing. This project is needed as the City recently constructed a new wellfield and treatment plant, thus impacting the direction of flows across the original distribution system. And to replace old undersized pipe in the system. In addition, a water main loop will be added to the west end of the City, that will eliminate an existing PWS through consolidation.	A new wellfield and treatment system for the removal of uranium was recently installed by the City. As a result, flow across the distribution system now is predominantly from east to west rather than from scattered well sites around the City. These improvements are necessary as part of the treatment plant, that was required to bring the City back into compliance with the Uranium MCL. Further, a new system loop will connect a separate non-transient, non-community public water system into the City's system, bringing that system into compliance with the Nitrate MCL.	Portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
CARROLL, VILLAGE OF	New Water Service Meters	Installation of new water meters on services presently not metered.	N/A	The installation of water meters on previously unmetered service connections is categorically eligible for funding through the DWSRF Green Project Reserve.
CEDAR-KNOX RWD	Surface Water Treatment Plant Modifications	The Surface Water Treatment Plant (SWTP) currently uses a MIOX disinfectant system for its treated water supply. Disinfection Byproducts (DBPs) such as Total Trihalomethanes (TTHMs) are formed when disinfectants oxidize naturally occurring organic and inorganic material after treated water leaves the plant. For the Cedar-Knox Rural Water District (RWD) this is primarily caused by the fluctuations in raw water quality, including increased turbidity and dissolved organics, and residence time due to the vast extent of the distribution system. In July of 2009, a Cedar Knox Rural Water Plant THM Study was completed which evaluated several alternatives for reducing the formation of DBP's, including: 1) Feeding Chlorine Dioxide as a preoxidant; 2) Adding Chloramines as a secondary disinfectant; and 3) Aeration to remove TTHM's. The THM study recommended that based on cost considerations, Chloramines be added as a secondary disinfectant. But following the study, the RWD continued the assessment of alternatives and concluded that Chlorine Dioxide for other non-monetary considerations was the best option for both resolving the TTHM Administrative Order (A.O.) and addressing current aesthetic and potential future water quality concerns. As such in March of 2010, the RWD initiated a full scale trial to feed Chlorine Dioxide. The project is also planned to include the installation of 2,000 feet of water service piping to the Chlorine Dioxide generator, the refurbishment of the MIOX feed unit and installation of Variable Frequency Drives on two raw water intake pumps.	Water age can be as long as six to seven weeks in many parts of the Cedar-Knox RWD, possibly up to eleven weeks within the Village of Obert during periods of low flows. From 2006 to 2008, the PWS exceeded the TTHM MCL (0.080 mg/L) with running annual averages ranging up to 0.087 mg/L at Maximum Residence Time monitoring locations within the distribution system. The system was issued a TTHM A.O. as a result by the NDHHS.	The system has experienced past taste. odor and turbidity problems, which with Chlorine Dioxide being added as a preoxidant should be more effective at preventing than chloramination. Further, there are potential DBP issues with chloramination due to nitrification and the DBP family of iodoacids, which are of less concern with the addition of Chlorine Dioxide.
DORCHESTER, VILLAGE OF	Replacement Well with Transmission Main, 150,000 Gallon Water Tower and Install New Water Meters	In September of 2008, the Village's engineer completed a Preliminary Engineering Report for Dorchester's Municipal Water System. The PWS had three municipal wells but over the past year lost one due to elevated levels of Uranium (44.3 µg/L) and a second well became inoperable due to excessive buildup and a plugged formation around the screen. The latter was likely caused by the significant levels of Iron (710 µg/L) and Manganese (496 µg/L) present regionally in groundwater. The remaining well (No. 78-1) has sufficient capacity to supply the Village, but is over 30 years old and also has elevated levels of Iron (380 µg/L) and Manganese (520 µg/L). Due to well lost due to Uranium concentrations, the age of the primary system well and the susceptibility for that well to become fouled and/or plugged, a need has been established to develop a new production well. Presently, storage for the water distribution system is provided through an undersized 50,000 gallon legged water tower, which was built in 1910. The tower is in need of repair, but due to its' age and a design year Average Day Demand of ~139,000 gallons, it was recommended for replacement. A new 150,000-gallon capacity tower will be constructed that will be 30 feet taller than the existing to increase supply pressures. The Village does not presently have water service meters, but will be installing meters on all connections as part of the proposed project.	The new well replaces one lost in the past year due to elevated levels of Uranium (44.3 µg/L).	The installation of water meters on previously unmetered service connections is categorically eligible for funding through the DWSRF Green Project Reserve. Further, portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
HICKMAN, CITY OF	Hickman Water System Improvements	A Water Study was developed in 2003 for the system, followed by a Preliminary Engineering Report on Water Treatment and Supply Study in 2008 and a Design Memorandum for Water Treatment Facilities in 2009. After a thorough evaluation of cost, it was recommended that the Hickman install an oxidation/ filtration plant with a greensand pressure filter treatment process. The new plant will allow Nitrates in the systems' shallower wells to be reduced through blending, while treating the concentrations of iron/manganese present in the deeper confined aquifer. Installing filtration as a means of treatment will also require disinfection of the community's water supply on a permanent basis. Hickman also plans to drill a second production well into the lower confined aquifer, adjacent to shallow Well No. 89-2. The benefit will be providing the system a backup source of water that is low in Nitrates. A separate phase of the project is the replacement of old undersized water mains within the distribution system. Six inch pipe will be installed to replace sections of 2" and 4" main and to loop several sections to improve flows and pressures. These areas were identified for improvement in a 2005 Water Study. In addition, funding will be provided for the replacement of water meters, that are aging and losing efficiency to accurately account for water usage. This continues the City's program to convert to a more reliable radio read meter system.	The new treatment plant will allow the City to further develop the deeper aquifer, which is low in Nitrates but high in Iron/Manganese. In the short term, the new filtration plant will allow for adequate blending of the systems' elevated nitrate supplies from the shallower aquifer. Further, the EPA has indicated that filtration clarifies water and enhances the effectiveness of disinfection. The City began permanently disinfecting its water supply following the issuance of a Total Coliform A.O. by the NE DHHS in October 2008. The construction of the plant will continue that practice, as chlorine disinfectant will be added after treatment to maintain a residual in the distribution system.	Portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
HOLSTEIN, VILLAGE OF	New Water Service Meters	Installation of new water meters on services presently not metered.	N/A	The installation of water meters on previously unmetered service connections is categorically eligible for funding through the DWSRF Green Project Reserve.

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY2011 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
HUMBOLDT, CITY OF	Blending Wellfield and Clearwell, High Service Pump Station and Transmission Mains	The project will result in the development of a Blending Wellfield and Clearwell, needed to augment the existing water supplies for both the City of Humboldt, as well as the Richardson County Rural Water District (RCRWD) No. 1. The DWSRF is collaborating with United States Department of Agriculture – Rural Development (USDA-RD) in providing funding assistance for the City's share, while USDA-RD is financing the RCRWD No. 1 portion of the project.	Both of those Public Water Systems (PWS) are presently under an Administrative Order (A.O.) issued by NDHHS-DPH due to elevated levels of Nitrates.	Portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
HUMPHREY, CITY OF	Replacement Water Tower with Transmission Main, and Water Main Replacements	Storage for the distribution system is currently provided through an undersized 45,000 gallon legged water tower, which was constructed in 1890. Typically due to just age and a design year Average Day Demand of 195,000 gallons, the existing tower would be recommended for replacement. As such, a new 250,000-gallon capacity tower will be constructed, which is being reasonably sized for both future growth and fire protection supply needs. However, the new tower is also needed to reduce the pumping capacity of the existing supply wells. Recent operation changes limiting well pumping capacities to 300 gallons per minute (gpm) have resulted in decreased levels of Selenium in the South and East wells down to 41.9 µg/L and 42.7 µg/L, respectively. Increased storage capacity is needed to allow the system to maintain the lower pumping capacities during peak summer water use months. This may allow the City to return to compliance with the Selenium Maximum Contaminant Level (MCL) without the additional costs of developing a new water supply and/or providing treatment. The majority of the existing distribution system consists of undersized (20,000 feet of 4" sized or less) cast iron pipe water main that was constructed around 1900. A second phase recommended in the Preliminary Engineering Report (PER) is for significant portions of the system to be upgraded to replace deteriorated and undersized water mains, and to eliminate dead-end lines where possible. A phased approached is planned, with over 13,000 feet of new 6" and 8" replacement main now proposed. In addition, a new 10" and 12" sized transmission main to the Replacement Tower location will also be constructed.	The public water system (PWS) has two active supply wells, the South Well No. 70-1 and East Well No. 2001-1. In 2009, running annual averages of Selenium detected in the South Well reached 0.06 milligrams per Liter (mg/L), exceeding the MCL of 0.05 mg/L. Subsequent, the NDHHS-DPH issued the community an Administrative Order, which requires a plan for returning into compliance with the MCL. Concentrations detected in the South and East Wells have historically ranged up to 73.0 micrograms per Liter (µg/L) and 73.7 µg/L, respectively. The PER concluded that the City may need to replace the existing water source and/or provide treatment to remove Selenium to below the MCL. However, the unique Replacement Tower alternative is presently planned that may allow the City to return to compliance through reduced pumping of the existing supply wells.	Portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
KEARNEY, CITY OF	Looping of Water Mains	The City needs to expand their water supply distribution system in southwest Kearney to serve a proposed elementary school and a 12-lot housing subdivision. The new school will replace an existing one, which is being converted into an administration facility for the Kearney Public School Administration. The project will be located south of 11th Street and north of 8th Street on 15th and 16th Avenues. Over 3,200 feet of 8" to 12"-inch sized water main will be installed. The project will form a new loop within the water distribution system and will help assure a safe, reliable drinking water supply for existing residents in the community, in particular the new school.	N/A	N/A
OSCEOLA, CITY OF	Replacement Well w/ Auxiliary Power, Water Mains & Wellhouse	Routine monitoring detected levels of Arsenic ranging up to 14.1 µg/L in Well No. 85-1, consistently above the MCL. As a result, a test well program was initiated to develop a new water source. A proposed replacement well location was identified in relatively close proximity to Well No. 72-1. Analysis of samples collected from the test well show levels of Arsenic ranging up to 8.18 µg/L, comparable to the monitoring of Well No. 72-1 that has consistently detected levels of Arsenic below 8 µg/L. While the recommended replacement well alternative is for a permanent water supply less than the Arsenic MCL of 10 µg/L, the proposed well site was also chosen to allow feasible piping to a centralized treatment facility, should Arsenic levels ever increase in the future. The new well will be equipped with auxiliary power so that the City will be able to maintain supply pressures during any unforeseen power outages. The second phase of the project will include replacement of over 7,500 feet of the undersized 2" and 4" pipe with 6" to 8" size main to improve flows and pressures in the southern and western sections of the system. Those parts of the City include services to the elementary and high schools, as well as the hospital. Lastly, the project will include the replacement of the wellhouse and electrical improvements for Well No. 72-1, and the abandonment of Well No. 51-1.	Routine monitoring detected levels of Arsenic ranging up to 14.1 µg/L in Well No. 85-1, consistently above the MCL. That well is proposed for replacement as part of this project.	While the recommended replacement well alternative is for a permanent water supply less than the Arsenic MCL of 10 µg/L, the proposed well site was also chosen to allow feasible piping to a centralized treatment facility, should Arsenic levels ever increase in the future. Further, portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
PICKRELL, VILLAGE OF	New Well w/ Transmission Main and Tower Repainting	A new 300-gallon per minute well will be drilled to the south of the Village, just to the north of the existing well. The proposed installation will reduce the length of transmission main to be installed, minimizing project costs. In addition, the community is planning on repainting the interior of its water tower.	N/A	The Engineering Report completed in 2009 concluded that a new well is needed to provide redundancy in the water supply should the existing well fail. The new well will be equipped with emergency power so that the Village will be able to maintain supply pressures during any unforeseen power outages.
PLATTE CENTER, VILLAGE OF	Test Well Program, Planning & Design Costs for Replacement Well & Distribution System Improvements	The Village is planning for the construction of a replacement water well with transmission main and major improvements to their distribution system. However, the overall project is scheduled to be funded in conjunction with the Community Development Block Grant (CDBG) program administered through the Nebraska Department of Economic Development. In order to complete the necessary planning activities to secure a CDBG, DWSRF funding for just planning and design activities is to be provided at this time.	Historically, Nitrate concentrations in one of the Village's primary wells have fluctuated up to 17 mg/L, well above the Environmental Protection Agency's (EPA) Maximum Contaminant Level (MCL). Most recently a 10.1 mg/L Nitrate concentration was detected in April 2011.	Portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
ROGERS, VILLAGE OF	Water Tower Rehabilitation	The community has struggled to maintain compliance with the Total Coliform Rule. Since the majority of the public water system (i.e., Well, Distribution System, etc.) was replaced in 1994, it is suspected that a significantly deteriorated water tower roof is the source of the systems' coliform problems. An engineering report concluded that the tank is basically in sound condition, except for the roof that was damaged in the past from ice and from inspections which noted severe rusting on the riveted lap seams, separation of the roof lap seams with penetrations, and a suspect roof gap eve. As such, the report recommended a rehabilitation of the existing tank with a complete roof replacement, rather than the erection of a new tank. This followed unsuccessful attempts to repair the roof. The project will consist of a complete roof replacement, with interior and exterior tank repainting. Further, a recirculation system will also be constructed to help mitigate freezing concerns during the winter months.	The community has struggled to maintain compliance with the Total Coliform Rule, historically being issued A.O.'s by the Nebraska Department of Health and Human Services and required temporary chlorination of water supplies. The project is expected to remedy the cause of the systems' coliform problems.	N/A

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY2011 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
SHELBY, VILLAGE OF	Adsorption Treatment for Arsenic Removal, Replacement Water Tower and Looping of Water Mains	The primary deficiency of Shelby's water supply is arsenic concentrations that exceed the Environmental Protection Agency's (EPA) Maximum Contaminant Level (MCL) of 10 µg/L. The PWS is currently operating under an Arsenic Exemption issued by Department of Health and Human Services. Levels of Arsenic have ranged up to 19.3 µg/L and 12.5 µg/L in Well Nos. 91-1 and 2006-1, respectively. The Village's water source also has levels of Iron (371 µg/L) and Manganese (475 µg/L) that exceed EPA's Secondary MCL's. A 2008 Preliminary Engineering Report (PER) concluded that an Iron Based Sorbent/Adsorbent Media central based treatment plant is needed to return the Village's PWS into compliance with the Arsenic MCL. Other treatment alternatives evaluated during that study included ion exchange and point of entry/point of use processes. Alternatives other than treatment evaluated included regionalization of Shelby's water supply with nearby communities and the development of a new source area. None of the alternatives considered were determined to be cost-effective, following a comparison analysis with the recommended treatment option. Further, the adsorptive media treatment option will also remove iron and manganese, resolving aesthetic concerns raised by local residents. The PER also noted that the existing 88,000 gallon storage tower, is undersized, not capable of supplying design year average day demand (158,000 gallons) nor is reasonably sized to address the Village's potential emergency and fire flow needs (246,000 gallons). The tower may be up to 98 years old, built sometime after 1912. A 2007 tower inspection noted that an additional manway, safety ladder & rail and fail-safe vent need to be installed, and that eve gaps on the tower roof may need to be sealed. As the existing tower is nearing 100 years in age and is undersized, the Village determined that it would be a more appropriate use of funds to replace the infrastructure rather than complete the necessary repairs to extend the useful life of the existing tower. The new 150,000 gallon tower is being reasonably sized to meet the design year needs for the Village. The DWSRF will provide interim funding for the new WTP, in conjunction with a permanent USDA ARRA loan, and permanent funding for the new water tower.	The Iron Based Sorbent/Adsorbent Media central based treatment plant will return the Village's PWS into compliance with the Arsenic MCL.	Secondary MCL's were set as guidelines to assist PWSs in managing their drinking water for aesthetic considerations. Noticeable effects of Iron at levels above the secondary MCL include rusty color; sediment; metallic taste; reddish or orange staining. For Manganese the effects include black to brown color; black staining, and a bitter metallic taste. While not considered a public health concern, EPA established the secondary standards because a great number of people may stop drinking water from their PWS even though it is safe to consume. Complaints on the quality of water and that of stained laundry have been made by Shelby's residents. The adsorptive media treatment option will also remove iron and manganese, resolving aesthetic concerns raised by local residents. Further, portions of this project meet a goal of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
STROMSBURG, CITY OF	Adsorption Treatment for Arsenic Removal, and Replace/Looping of Water Mains	Stromsburg's PWS consists of three municipal wells (Nos. 68-1, 72-1 & 89-1), an elevated 200,000 gallon water storage tower and a distribution system with numerous dead end lines. Presently, all three wells pump directly into the distribution system without treatment. A 2009 Preliminary Engineering Report (PER) concluded that an Iron Based Sorbent/Adsorbent Media central based treatment plant is needed to return the City's PWS into compliance with the Arsenic Maximum Contaminant Level (MCL). Lastly, the PER noted several areas within the City where undersized mains need to be replaced and tie-ins are needed to complete loops within the distribution system. Looping and replacing of those mains will improve pressures and flows addressing stagnant water concerns. The majority of the project will be permanently funded through USDA-RD's program, with interim funding provided by the DWSRF. The portion of the project that is to be permanently funded by the DWSRF is the Buckley Park Loop. This improvement would eliminate a dead end main to the south of Buckley Park and improve flow around the park area. Additionally it will provide redundant means to supply water to the Cross County Community School.	The primary deficiency of Stromsburg's water supply is arsenic concentrations that exceed the MCL of 10 µg/L. The PWS is currently operating under an Arsenic Exemption issued by NDHHSDPH. Levels of Arsenic have ranged up to 22.6 µg/L, 27.0 µg/L and 26.6 µg/L in Well Nos. 68-1, 72-1 and 89-1, respectively.	The City's water source also has levels of Manganese (168 µg/L) that exceed EPA's Secondary MCL's. Secondary MCL's were set as guidelines to assist PWSs in managing their drinking water for aesthetic considerations. Noticeable effects of Manganese at levels above the secondary MCL include black to brown color; black staining, and a bitter metallic taste. While not considered a public health concern, EPA established the secondary standards because a great number of people may stop drinking water from their PWS even though it is safe to consume. The adsorptive media treatment option will also remove iron and manganese, resolving aesthetic concerns.
WAUNETA, VILLAGE OF	System Controls, Well Improvements, Test Well Program and Water Main Replacements	A study by the University of Nebraska at Lincoln (UNL) recommended that Wauneta continue to monitor for arsenic concentrations in the systems existing water supply wells at the lowest pumping rates feasible and to evaluate the potential association between the decreases in arsenic concentrations with precipitation and/or recharge events. The installation of new controls and VFDs on three of the Village's supply wells will allow the public water system to implement the recommendations of the UNL Study. Should decreased well pumping rates ultimately not prove to be effective in reducing arsenic concentrations, Wauneta will then implement a test well program to develop a new water source. A preliminary review indicated the potential for a new wellfield several miles north of the Village. Should testing show that a new wellfield cannot be developed, the last alternative evaluated for the Village is to provide treatment to remove arsenic from its existing supply. The new control system and VFDs can be salvaged for use at either the new wellfield or treatment plant improvements, should they ever need to be implemented. The sections of water main proposed for replacement are in the northeast section of town and involve two crossings of the Frenchman Creek. The existing crossings are at shallow depths, or in the case of Wichita Street, no longer functioning. Both creek crossing replacements will be directionally bored. All of the proposed main improvements would provide an improved loop that would serve as a primary tie-in point should a new well field ever be developed to the north.	The primary deficiency of Wauneta's water supply is arsenic concentrations that exceed the EPA MCL of 10 µg/L. Levels of Arsenic have ranged up to 12.1 µg/L and 13.1 µg/L in Well Nos. 50-1 and 72-1, respectively, and up to 12.3 µg/L in the common point of entry for Well Nos. 94-1 and 94-2. While at times the levels of arsenic have fluctuated, the current running annual averages remain above the MCL.	In 2007, the University of Nebraska-Lincoln (UNL) completed a study for the purpose of assessing the extent to which well rehabilitation, hydrogeologic avoidance and well management can be used to reduce the concentration of uranium and arsenic in individual public water supply wells. One of Wauneta's supply wells was included as part of the study and a key finding was that over the limited period of observation, data from Wauneta indicate that arsenic concentrations were lowered below the MCL. The UNL Study recommended that Wauneta continue to monitor for arsenic concentrations at the lowest pumping rates feasible and to evaluate the potential association between the decreases in arsenic concentrations with precipitation and/or recharge events. It was suggested that arsenic concentrations being detected might be tied to climate conditions, as a result the recommendation for Wauneta to collect samples with timing preference be given after precipitation and/or recharge events.
WAUSA, VILLAGE OF	Interconnection with the Wau-Col Rural Water System	To the south and east of Wausa, the Lower Elkhorn Natural Resources District (LENRD) has started the process to build a new rural water system. The proposed interconnection with the LENRD system is mutually beneficial as the rural system will benefit from Wausa's excellent water source for supply and the Village will have an allocated amount of storage capacity from LENRD's 100,000 gallon sized water tower.	That rural system is needed to address regional water quality issues, primarily due to elevated levels of Nitrates in both private and public water supplies.	The new tower will allow the Village to abandon the existing undersized hydro-pneumatic tanks.