

**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 2012



October 2012

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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 State Fiscal Year (SFY) 2012 (July 1, 2011 through June 30, 2012). 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 SFY 2012 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 \$178.1 million plus forgiveness of \$22.5 million to 175 Public Water System (PWS) projects beginning with the program's inception through June 30, 2012. The Federal Fiscal Year (FFY) 2011 EPA capitalization grant was received on September 17, 2011. The FFY 2011 EPA capitalization grant was cash matched through the Administration Cash Fund and Special Bond Reserve cash freed up through a bond redemption. The FFY 2012 EPA capitalization grant is scheduled to be awarded for September 2012. The match for the FFY 2012 capitalization grant will be provided through the Administration Cash Fund and Special Bond Reserve cash freed up through a planned January 1, 2013 bond redemption.

I. FINANCIAL SCHEDULES SECTION

BACKGROUND

The Nebraska Department of Environmental Quality (Agency) – 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, 2012, the EPA had awarded \$131 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$131 million required the State to contribute approximately \$23.6 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, \$1,965,000 in October 2008, and \$3,110,000 in November 2010. The 2009 Capitalization grant was matched with \$1,629,000 of Administrative Cash Funds. On July 1, 2011, the Agency retired the 2001, 2002, 2003, 2005 and 2006 bond issues. After the retirement of outstanding debt on these bonds, \$872,407 remained from the associated reserve funds of the debt. This was used, along with \$1,011,290 of Administrative Cash Funds to match the 2011 Capitalization grant.

The Program is administered by the Nebraska Department of Environmental Quality (Agency) and the Nebraska Department of Health and Human Services – Division of Public Health. The Agency'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 Agency 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 (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, 2012. This analysis has been prepared by management of the Agency, 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, 2012, net assets of the Program increased by 7.1%. Revenues for the Program increased 3.7%, while expenses increased by 5.9%.

	NET ASSETS		
	2012	2011	% Change
Current Assets	\$49,628,565	\$46,280,045	7.2%
Noncurrent Assets	88,342,748	90,185,920	(2.0)%
Total Assets	137,971,313	136,465,965	1.1%
Current Liabilities	(4,058,381)	1,940,733	(309.1)%
Noncurrent Liabilities	13,890,000	14,875,703	(6.6)%
Total Liabilities	9,831,619	16,816,436	(41.5)%
Net Assets:			
Restricted	1,693,008	2,273,757	(25.5)%
Unrestricted	126,446,686	117,375,772	7.7%
Total Net Assets	\$128,139,693	\$119,649,529	7.1%

NET ASSETS

	2012	2011	% Change
Loan Fees Administration	\$984,120	\$913,202	7.8%
Interest	4,033,639	3,928,206	2.7%
Fines, Forfeits, and Penalties	2,131	199	970.9%
Total Operating Revenues	5,019,890	4,841,607	3.7%
Administration	2,357,647	1,942,189	21.4%
Bond Expenses	406,979	757,236	(46.3)%
ARRA Loan Forgiveness	101,981	1,495,884	(93.2)%
Non ARRA Loan Forgiveness	2,244,726	631,428	255.5%
Total Operating Expenses	5,111,333	4,826,737	5.9%
Operating Income (Loss)	(91,443)	14,870	(716.0)%
Capital Federal Grants	8,303,557	4,387,064	89.3%
Capital Contributions ARRA Grants	278,050	3,275,783	(91.5)%
Change in Net Assets	8,490,164	7,677,717	10.6%
Beginning Net Assets July 1	119,649,529	113,960,966	5.0%
Prior Period Adjustment	-	(1,989,154)	100.0%
Total Net Assets, Beginning of Year	119,649,529	111,971,812	6.9%
Ending Net Assets June 30	\$128,139,693	\$119,649,529	7.1%

The most significant changes from the fiscal year ended June 30, 2011, to the fiscal year ended June 30, 2012, 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. However, the infusion of ARRA funding has continued to increase the collection of loan fees. Administrative expenses increased from last fiscal year, due to the fact the program filled empty vacancies and were more fully staffed. Noncurrent Liabilities decreased significantly due to the redemption of five bond series during the fiscal year. This brought the Net Asset total up since there was less debt to pay.

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 in recent years; however, net State general fund revenues for fiscal year 2012 finished the year 2.9% above projections. The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains to be a challenge for communities in funding major capital projects. Declining population bases make it difficult to draw the amount of user fees needed to fund infrastructure requirements. As of the fiscal year ended June 30, 2011, the program had received \$19,057,539 in ARRA funds and about half of those funds were provided as principal forgiveness to communities. The ARRA funding does not require a State match.

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 \$24 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.

The average ARRA base blended loans are 25 percent principal forgiveness. The remaining 75 percent is issued to communities as low-interest loans at 2 percent. ARRA requires the State to use at least 50 percent of the funds awarded 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. ARRA requires 20 percent of recovery funds go to 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, 2012**

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents:	
Cash in State Treasury (Note 2)	\$30,922,461
Amounts Held by Trustee (Note 2)	10,703,430
Interest Receivable	61,339
Loan Interest Receivable	-
Administrative Fees Receivable	-
Loans Receivable (Note 3)	7,941,335
TOTAL CURRENT ASSETS	49,628,565
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	88,342,748
Long Term Investments	-
TOTAL NON-CURRENT ASSETS	88,342,748
TOTAL ASSETS	\$137,971,313
 LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	\$173
Compensated Absences (Note 5)	-
Accrued Bond Interest Payable	201,446
Bonds Payable – Current (Note 4)	(4,260,000)
TOTAL CURRENT LIABILITIES	(4,058,381)
NON-CURRENT LIABILITIES	
Compensated Absences (Note 5)	-
Bonds Payable – Long Term (Note 4)	13,890,000
TOTAL NON-CURRENT LIABILITIES	13,890,000
TOTAL LIABILITIES	9,831,619
 NET ASSETS	
Restricted for Bond Payments	1,693,008
Unrestricted	126,446,686
TOTAL NET ASSETS	128,139,693
TOTAL LIABILITIES AND NET ASSETS	\$137,971,313

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, 2012**

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	\$984,120
Interest on Loans	2,836,538
Interest on Fund Balance – Trustee	532,798
Interest on Fund balance – State Operating Investment Pool (Note 8)	664,303
Fines, Forfeits, and Penalties	2,131
TOTAL OPERATING REVENUES	5,019,890
OPERATING EXPENSES:	
Administration From Fees (Note 10)	397,301
4% Administrative Costs from Grant	-
15% Source Water Assessment Program (Note 10)	464,122
2% Technical Assistance to Small Systems (Note 10)	219,800
10% Public Water Supply System (Note 10)	1,276,424
30% Principal Forgiveness (Note 10)	2,244,726
50% Principal forgiveness ARRA (Note 10)	101,981
Bond Rebate Fee Expense	-
Interest Expense – State Match Bonds (Note 10)	406,979
Cost of Bond Issuance	-
TOTAL OPERATING EXPENSES	5,111,333
OPERATING INCOME	(91,443)
CAPITAL CONTRIBUTIONS – FEDERAL GRANTS	8,303,557
CAPITAL CONTRIBUTIONS – ARRA FEDERAL GRANTS	278,050
CHANGE IN NET ASSETS	8,490,164
TOTAL NET ASSETS, BEGINNING OF YEAR	119,649,529
PRIOR PERIOD ADJUSTMENT (Note 14)	-
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	119,649,529
TOTAL NET ASSETS, END OF YEAR	\$128,139,693

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, 2012**

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$13,839,222
Interest on Investments	1,197,101
Payments to Borrowers	(10,408,690)
Payments to Borrowers ARRA	(176,069)
Payments for Administration	(397,301)
15% Source Water Assessment Program	(464,122)
2% Technical Assistance to Small Systems	(219,800)
10% Public Water Supply System	(1,276,424)
Principal Forgiveness	(2,244,726)
Principal Forgiveness ARRA	(101,981)
Bond Principal Payments	(6,590,000)
Bond Interest Payments	(406,979)
Bond Issue	-
Cost of Bond Issuance	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	(7,249,769)
 CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	8,303,557
Funds Repaid to the Environmental Protection Agency	-
ARRA Funds Received From the Environmental Protection Agency	278,050
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES	8,581,607
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	40,294,053
CASH AND CASH EQUIVALENTS, END OF YEAR	\$41,625,891
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	(\$91,443)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(189,323)
(Increase)/Decrease in Interest Receivable	(10,389)
(Increase)/Decrease in Loan Interest Receivable	5,895
(Increase)/Decrease in Admin Fees Receivable	3,423
Increase/(Decrease) in Bonds Payable	(6,590,000)
Increase/(Decrease) in Accrued Interest on Bonds	(148,195)
Increase/(Decrease) in Accounts Payable	(229,737)
Increase/(Decrease) in Compensated Absences	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	(\$7,249,769)

E. NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - UNAUDITED

**NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
NOTES TO THE FINANCIAL STATEMENTS - UNAUDITED**

For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the Nebraska Department of Environmental Quality (Agency) 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 Agency 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 Agency is a State agency established under and governed by the laws of the State of Nebraska. As such, the Agency 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 Agency 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 Agency.

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, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

In addition to the funds above, the Agency created Fund 48410 to track ARRA activity.

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 Agency 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.

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, 2012, 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 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, 2012, which is collectible in fiscal year 2013.

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 is 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 Agency'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.

I. Compensated Absences

All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

Program employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or at a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

The Program financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

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, 2012. 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 2012. 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 Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants (See Not 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Bond Indenture. At June 30, 2012, the amount held by the Trustee of \$10,703,430 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 of the following:

	<u>Fair Value</u>
Money Market Account	3,449,553
Guaranteed Investment Contracts (GICs) in CDC Funding Corporation	<u>7,253,877</u>
TOTAL	<u>\$10,703,430</u> =====

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 \$3,449,553 in deposits held by the Trustee, \$250,000 was covered by FDIC insurance and \$3,199,553 was uninsured and uncollateralized during and at the end of the fiscal year ended June 30, 2012, 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;
- (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 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.

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, 2012, the Program had 136 outstanding balances totaling \$125,328,173.37. The outstanding balances of the ten communities with the largest loan balances, which represent 55.0% of the total loans, were as follows:

<u>City</u>	<u>Outstanding Balance</u>
Lincoln	\$15,000,000
Kearney	9,438,321
McCook	7,687,418
Gering	6,656,071
North Platte	6,095,888
Metropolitan Utilities District	5,713,959
Sidney	5,230,734
Blair	4,960,857
Auburn	4,290,672
Alliance	<u>3,836,373</u>
TOTAL	\$ 68,910,293

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, 2008A and 2010A 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, 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 2013. Bonds payable for the fiscal year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Retirement	Ending Balance	Current Portion
Bonds Payable	\$16,220,000	\$ 0	\$6,590,000	\$9,630,000	970,000

Bonds Payable at June 30, 2012, consisted of the following:

Series	Original Issue	Retirements	2012 Balance	Interest Rate	Final Maturity Date
2000A	\$5,530,000	\$3,235,000	\$2,295,000	4.8-5.7%	July 1, 2015
2001A	1,815,000	1,815,000	-	3.9-5.15%	Jan. 1, 2016
2002A	2,000,000	2,000,000	-	1.8-4.6%	Jan. 1, 2017
2003A	1,700,000	1,700,000	-	1.3-3.8%	Jan. 1, 2018
2004A	1,890,000	765,000	1,125,000	1.6-4.75%	July 1, 2019
2005A	1,920,000	1,920,000	-	2.75-4.2%	July 1, 2020
2006A	1,915,000	1,915,000	-	3.6-4.3%	Jan. 1, 2021
2007A	1,920,000	450,000	1,470,000	3.5-4.35%	Jan. 1, 2022
2008A	1,965,000	335,000	1,630,000	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. On July 1, 2011, the Agency redeemed series 2001A, 2002A, 2003A, 2005A, 2006A bonds in the principal amount of \$5,725,000 and accrued interest in the amount of \$124,123. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2013	970,000	388,589	1,358,589
2014	1,005,000	350,238	1,355,238
2015	1,030,000	308,896	1,338,896
2016	1,625,000	248,569	1,873,569
2017-2021	3,220,000	737,988	3,957,988
2021-2026	1,780,000	162,963	1,942,963
TOTAL	\$9,630,000	\$2,197,243	\$11,827,243

5. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2012, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$16,885	-	16,885	-	-

6. 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 capitalization grants awarded, drawn, and the remaining balance as of June 30, 2012. 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, 2012, 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	8,229,000	-
2008	8,146,000	8,146,000	-
2009 – ARRA	19,500,000	19,057,539	442,461
2009	8,146,000	7,382,539	763,461
2010	13,573,000	6,828,669	6,744,331
2011	9,418,000	1,107,723	8,310,277
TOTAL	\$150,841,726	\$134,581,196	\$16,260,530

The 2011 grant was delayed and was not awarded until September 7, 2011, after the end of State fiscal year 2011. Although the 2011 grant was delayed, the grant award allowed the Agency to charge expenditures for projects to the grant effective date of October 1, 2011.

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

Contributed Capital July 1, 2011	\$ 129,957,425
Contributed During the Year:	
Funds From EPA	8,303,557
Funds From ARRA	278,050
Contributed Capital June 30, 2012	\$ 138,539,032

Also included in the Contributed Capital is 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 during the fiscal year ended June 30, 2011.

7. 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 was collected semi-annually.

8. 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.

9. 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 primary operating revenues of the Program are the Loan Fees Administration and interest from loans, since making loans is the primary purpose of the Program.

The principal operating expenses of the Program are administration expenses and principal forgiveness. Interest expenses are also operating expenses since making loans is the primary purpose of the Program.

10. 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.

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 Principal Forgiveness is the amount the State forgave principal payments on 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.

11. 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 Agency 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, 2012, employees contributed \$31,769.51 and the Agency contributed \$49,560.44. 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.nebraska.gov.

12. **Contingencies and Commitments.**

Risk Management. The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Agency, 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 Agency, if any, could not be determined at this time. However, it is the Agency's opinion that final settlement of those matters should not have an adverse effect on the Agency's ability to administer current programs. Any judgment against the Agency would have to be processed through the State Claims Board and be approved by the Legislature.

II. PROGRAM INFORMATION SECTION

A. Fund Activities

1. Loan and Investment Status

The fund has a loan portfolio containing \$178,136,622 in total loan allocations, of which \$52,017,639 was repaid; \$96,284,083 is outstanding, leaving \$29,834,900 still to be disbursed. Details on the Fund portfolio of 175 loans are in Attachment 1. The blended interest rate on the SFY 2012 outstanding loan balance is 2.657%. The SFY 2012 blended rate was 2.26%. The result was an overall 8.0 basis point decrease. The blended rate is likely to decrease again over the next year.

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

This past State Fiscal Year (SFY), the DWSRF entered into 10 binding commitments and 3 loan amendments to existing funded communities in order to provide financial assistance to PWS projects totaling \$24,905,496. Of that amount, disadvantaged communities received \$2,036,253 in forgiveness funding. Further, the Federal Fiscal Year (FFY) 2010 and 2011 capitalization grants required that a minimum of 30% of those grants be reserved for additional subsidization (e.g., principal forgiveness) and 20% for the Green Project Reserve (GPR) (e.g., water meters). The FFY 2010 grant requirements have been met and 24% and 49% of the FFY 2011 requirements were met before the end of the SFY, respectively. With numerous loan closings scheduled there are no problems anticipated with meeting the required grant conditions.

Attachment 2 provides information showing the loan agreements entered into during SFY 2012 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 \$149,636,897. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of \$208,591,834 or 139.4% of the required amount. The net cumulative commitment amount after final loan adjustments and loan cancellations totals \$194,205,970.

From the FFY 2011 capitalization grant \$1,638,360 was allocated to the 2% (\$188,360), 10% (\$750,000) and 15% (\$700,000) 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 on-going ARRA program by Nebraska's DWSRF.

- 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 SFY 2012 NDHHS-DPH had contracts with one assistance provider:

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, 2011 through June 30, 2012 NeRWA provided 314 on-site visits for technical assistance to 227 PWS's.

NeRWA reported giving direct Financial and Managerial assistance 90 times to 70 PWS's.

In SFY 2012 Field Services representatives performed 412 Routine Sanitary Surveys (RSS) and 42 Follow-up surveys. There were 210 Community, 47 Non-Transient and 155 Transient Non-Community Routine Sanitary Surveys. The numbers of deficiencies found are as follows:

Community Systems:

Significant: 450 Minor: 189

A total of 639 deficiencies. Average of 3 significant or minor deficiencies per system.

Non-Transient Non-Community Systems:

Significant: 76 Minor: 21

A total of 97 deficiencies. Average of 2 significant or minor deficiency per system.

Transient Non-Community Systems:

Significant: 214 Minor: 87

A total of 301 deficiencies. Average of 1.9 significant or minor deficiencies per system.

Of the 1,037 significant and minor deficiencies found in SFY 2012 there are only 55 left to still be corrected. The vast majority of these are record keeping related deficiencies. This means that for SFY 2012 Nebraska had 95% deficiency correction rate. There are 31 PWS's that had a RSS in SFY 2012 that still have at least one outstanding deficiency. Ninety-two 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 SFY 2013. 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 2013 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 SFY 2012 NDHHS-DPH held eight water operator training courses applicable to various grade levels. Water operator licenses were issued to 120 individuals in SFY 2012. The number issued per license grade is as follows:

Grade 1 - 3 licenses

Grade 2 - 3 licenses

Grade 3 - 13 licenses

Grade 4 - 101 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.

The Operator Expense Reimbursement Grant closed out on December 31, 2011. This grant was a component of amendments to the SDWA in 1996 and intended to reimburse the costs associated with training and licensing of operators of community and nontransient noncommunity water systems serving 3,300 or fewer people. Nebraska's work plan for disbursement of its allotted \$1,557,400 was approved by USEPA on June 14, 2002. Through the approximately 10 years of grant activity, these grant funds were available to reimburse eligible Nebraska PWSs for water license fees, continuing education registration fees and mileage, water operator training courses, and other related activities.

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 FFY 2011 Capitalization Grant to administer Nebraska's Public Water Supply Program during SFY 2012 into SFY 2013. 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 FFY 1993 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 \$182,790 in general funds provided during FFY 2011 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 SFY 2012 was \$1,240,987), for review of plans (\$166,701 received in SFY 2012), and for operator certifications (Not Applicable for SFY 2012).

The total of State funding available for one-to-one match to the \$750,000 was \$2,096,505.

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. As of June 30, 2012, 94 PWSs have completed state-approved wellhead protection plans.

Beginning with FY 2003, 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 FFY 2007. The allocation from the FFY 2011 Capitalization Grant was distributed to six different entities for project implementation to enhance source water quality, quantity, security, and education. These recipients included the Cities of Clay Center, Crawford, Oakdale, Ord and the Villages of Glenvil and Trenton. The total amount available in SFY 2011 was \$100,000. To date, Source Water Protection funds have been distributed to 53 individual entities to complete 69 separate Source Water Protection projects throughout the State.

C. Planning Grants

The Planning Grant program 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 remained at \$25,000. Eighteen grant awards were made in SFY 2012 totaling \$256,320, all to high priority ranked communities to ultimately address public health issues associated with public water supplies. Since its inception in SFY 2002, the DWSRF has awarded planning grants to 100 communities for a total of \$1,205,320.

D. Security Grants

On December 8, 2011, 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 SFY 2012. 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:

- Security Alarms 10
- Fencing 13
- Lighting 6
- Locks 8
- Security Cameras 5
- Steel Doors 9
- Generators 8
- Chlorinators 7
- Communication 5
- Windows 3
- Transfer Switch 1
- Buildings 4
- Map 1
- Ladder Guard 1

Number of Grants Awarded 62

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 15 presentations involving asset management for PWS's, and an asset management presentation was made at three State conferences.

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 \$114,156,812 and the match disbursement was \$25,023,701 for an ACH draw as a percentage of grant plus match disbursements ratio of 82.02%. 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 and PBR 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 14 PWS projects during SFY 2012. 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: Bee, Daykin, Hay Springs, Leigh, McCook, St. Helena, Shelton, Wakefield and the West Knox Rural Water District. Categorical Exclusion(s) (CE) were issued for 5 projects: Creighton, Haigler, Holdrege, Loup City and Union.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2012 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 2.5%.

This goal was accomplished nearly across the board for all projects funded in SFY 2012, with the exception of the loan closed for the Village of Cortland. That loan was for an extended 30-year term to a disadvantaged community with an interest rate of 2.55%. At the time the program rate was 2.25%, with the 0.3% rate increase normal for all 30-year term loans.

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

There were 10 loans and 3 loan amendments closed during SFY 2012. Three of the loans were for high priority status projects. Three 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 and 2011 grant conditions. One of the amendments

addressed an enforcement actions issued by NDHHS-DPH: Bridgeport – Administrative Order (A.O.) Uranium Maximum Contaminant Level (MCL) violations.

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.

Nearly all systems that closed loans in SFY 2012 with the DWSRF met this goal. Descriptions of the individual projects are provided in Attachment 4. The sole exception was the project funded for the West Knox Rural Water District (RWD). The RWD is working with the U.S. Bureau of Reclamation for the completion of a Feasibility Study. An alternative identified for the study is an area for expansion of the RWDs wellfield. Concurrent with the study, the RWD is proceeding with the development of a production well within that area. The well will supply existing customers and will provide a greater amount of data to conclude whether the new area can support additional supply wells, should the Feasibility Study recommend proceeding with the overall expansion project. Regardless, the District's existing wells are nearly 30 years old; therefore, the development of an additional source for existing customers is a reasonable stand-alone project for the RWD, as those existing wells approach their design life.

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 Creighton and Shelton, and for the amendments with Bridgeport, Platte Center and Sutherland. The Uranium A.O. has set deadlines agreed to between the City 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 either new or replacement 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 Bridgeport.

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

A significant amount of the DWSRF funding provided in SFY 2012 was to PWSs with populations less than 10,000. Only the loan made with the City of Lincoln did not meet this goal. As such, nearly 40% 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.

A ninth goal was originally established to expand the types of eligible GPR projects through a stakeholders process; however, those efforts were halted when the grant conditions for the future FFY 2012 capitalization grant were announced and the GPR was not included. Sufficient water meter projects remain to meet the GPR requirement of the FFY 2011 grant and the program will monitor pending legislation to assess whether the GPR will return as a program requirement in the future.

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY 2012 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. Following the addition of the DWSRF-ARRA grant, interest rates have ranged between 2% and 2.5% after reviews of Market rates, reflective of recent economic concerns. This structure will 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 SFY 2012, three of the 10 loan agreements were made to either address or proactively mitigate future public health issues. However, four of the loans were made to meet the GPR requirement. As such, half of the non-grant required loans were made to high priority projects. In addition, 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 systems in acquiring and maintaining technical, managerial, and financial capacity. Also see the Planning Grant program (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 continued mandatory subsidization requirement of not less than 30% with the FFY 2011 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. Further, the Bureau of Reclamation's Rural Water Supply program has initiated several projects in Nebraska, one currently that the DWSRF is partnering together in providing funding to a RWD. 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.

C. Funded Program

The Annual Report reflects the results and changes from the SFY 2012 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 23, 2011. Provided on the next page is a brief synopsis of the SFY 2012 Funding List communities that closed loans during the fiscal year. More detailed project information for the loans closed in SFY 2012 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 SFY 2012 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Battle Creek and St. Paul, Cities of – Chose to privately fund their projects.

Bayard, City of – Is considering constructing a Reverse Osmosis treatment plant to address elevated Nitrate levels. The project, if constructed, will be funded through the USDA-RD with the water meter phase funded through the DWSRF.

Bee, Village of – Is planning to install Corrosion Control that will also permit Nitrate blending, which will be funded by the DWSRF and CDBG in SFY 2013.

Denton, Village of – Is planning to construct a Radium removal treatment plant, which will be funded by the DWSRF in SFY 2013.

Haigler, Village of – Is planning to install Point of Use treatment for Arsenic removal, which will likely be funded by the DWSRF and CDBG in SFY 2013.

Hemingford, Village of – Chose to not proceed with their well project.

McCook, City of – Is planning to construct a dedicated complete retention lagoon for water treatment plant residuals, which will likely be funded by the DWSRF in SFY 2013.

St. Helena, Village of – Is planning to construct a replacement standpipe, which will be funded by the DWSRF in SFY 2013.

Planning List Projects

Albion, City of – Has completed an initial well phase through DWSRF funding and after extensive monitoring may proceed with construction of an additional well for compliance with the Selenium MCL.

Bellwood, Village of – The Village is developing plans to treat its existing water source for the removal of Arsenic, a project that will likely be funded by USDA-RD.

Chappell, City of – Is evaluating whether to proceed with a planning study to address potential Arsenic concerns with their existing water supply.

Chester, Village of – Through private financing, proceeding with constructing a replacement supply well to address Nitrate concerns.

Coleridge, Village of – Completed a test hole for a new water source to address Nitrate concerns. The project may be funded through the DWSRF in SFY 2013.

Harrison, Village of – Has started a preliminary engineering study, the project will be submitted for a review through the WWAC.

Lindsay, Village of – Completed a test hole and a preliminary engineering study for a new water source to address Nitrate concerns. The project will likely be funded through the DWSRF in SFY 2013.

North Loup, Village of – The Village is developing plans for a replacement water tower and treatment to address an Arsenic A.O. The project will be funded through the DWSRF and CDBG in SFY 2013.

Ogallala, City of – Has completed a test hole and is in the process of purchasing a new wellfield to address Nitrate concerns. The project will likely be funded through the DWSRF.

Rosalie, Village of – The Village is participating in an Appraisal Report study funded through the Bureau of Reclamation's Rural Water Supply program.

Superior, City of – Has completed numerous test holes to identify a potential wellfield location to address Nitrate concerns.

Terrytown, City of – Has started a preliminary engineering study to evaluate Arsenic concerns. The City has signed a loan with the DWSRF to install water meters under the GPR.

Alliance, Cedar Knox RWD, and Clarks have completed their projects through DWSRF funding, and have been brought back into compliance with their enforcement actions previously issued by NDHHS-DPH.

The communities of Clatonia, Grafton, Scribner, and Steele City submitted preliminary engineering reports to NDHHS-DPH, for a review for potential funding assistance through the WWAC.

D. Program Changes Under Consideration

Changes under consideration include increased ranking points and/or forgiveness assistance based upon EPA's Enforcement Tracking Tool (ETT) scores and the possible inclusion of EPA's recommended 2.5% of Median Household Income Level as a water rate impact in either project ranking and/or affordability determinations.

SFY 2012 FUNDING LIST PLANNED					SFY 2011/2012 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	FNSI	HUMBOLDT, CITY OF	\$ 2,570,500	\$ 514,100	\$ 2,570,500	\$ 514,100	\$ 2,056,400	SFY2011-Q4	
2	FNSI	WAUSA, VILLAGE OF - SFY 2011	\$ 307,000	\$ 61,400	\$ 307,000	\$ 61,400	\$ 245,600	SFY2011-Q4	
3	FNSI	CORTLAND, VILLAGE OF (Partial GPR)	\$ 2,032,947	\$ 406,589	\$ 2,087,947	\$ 417,589	\$ 1,670,358	SFY2012-Q1	
4	CatEX	PLATTE CENTER, VILLAGE OF - SFY 2010	\$ 939,028	\$ 187,806	\$ 687,500	\$ 137,500	\$ 550,000	SFY2012-Q1	
5	200	BAYARD, CITY OF	\$ 200,000	\$ 40,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
6	185	HAIGLER, VILLAGE OF	\$ 1,529,000	\$ 305,800	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
7	165	HUMPHREY, CITY OF - SFY 2011	\$ 2,166,974	\$ 433,395	\$ 2,288,242	\$ 457,648	\$ 1,830,594	SFY2011-Q4	
8	165	DENTON, VILLAGE OF	\$ 835,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
9	160	GREEN ACRES MOBILE HOME COURT	\$ 51,000	\$ -	\$ -	\$ -	\$ -	NA	Passed on Funding.
10	155	BEE, VILLAGE OF	\$ 661,644	\$ 88,131	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
11	155	WOOD LAKE, VILLAGE OF	\$ 130,000	\$ 26,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
12	145	CHADRON MUNICIPAL AIRPORT	\$ 32,500	\$ -	\$ -	\$ -	\$ -	N/A	Passed on Funding.
13	135	BATTLE CREEK, CITY OF	\$ 872,000	\$ 88,682	\$ -	\$ -	\$ -	N/A	Turned down Funding, did not want to install meters.
14	135	OGALLALA, CITY OF	\$ 2,190,195	\$ 438,039	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
15	135	SPRINGFIELD, CITY OF	\$ 465,000	\$ -	\$ -	\$ -	\$ -	N/A	Passed on Funding.
16	135	SUPERIOR, CITY OF	\$ 550,000	\$ 110,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
17	135	WEST KNOX RWD	\$ 838,500	\$ 167,700	\$ 1,107,567	\$ 221,513	\$ 886,054	SFY2012-Q3	
18	130	SHELTON, VILLAGE OF (Partial GPR)	\$ 1,220,000	\$ 244,000	\$ 1,255,500	\$ 251,100	\$ 1,004,400	SFY2012-Q4	
19	130	MEAD, VILLAGE OF	\$ 1,300,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
20	100	COUNTRY ACRES SUBDIVISION	\$ 85,000	\$ -	\$ -	\$ -	\$ -	N/A	Passed on Funding.
21	90	ST HELENA VILLAGE OF	\$ 370,500	\$ 61,651	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
22	70	HAY SPRINGS, CITY OF - SFY 2011	\$ 381,250	\$ 76,250	\$ 381,250	\$ 76,250	\$ 305,000	SFY2012-Q3	
23	60	HEMINGFORD, VILLAGE OF	\$ 950,000	\$ 190,000	\$ -	\$ -	\$ -	N/A	Passed on Funding.
24	60	ST EDWARD, VILLAGE OF	\$ 451,000	\$ 90,200	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to SFY2013 Planning List.
25	60	MCCOOK, CITY OF	\$ 2,282,000	\$ 456,400	\$ -	\$ -	\$ -	N/A	Project delayed, shifted to SFY2013 Funding List.
26	60	ST PAUL CITY OF	\$ 450,000	\$ 90,000	\$ -	\$ -	\$ -	N/A	Passed on Funding.
SFY 2012 PLANNING LIST - BYPASS SYSTEMS					SFY 2012 FUNDED PROGRAM				
NR	135	CREIGHTON, CITY OF	\$ 1,123,492	TBD	\$ 562,000	\$ 112,400	\$ 449,600	SFY2012-Q2	Funded per SFY2012 Bypass Criteria.
NR	60	LINCOLN, CITY OF	\$ 26,800,000	\$ -	\$ 15,000,000	\$ -	\$ 15,000,000	SFY2012-Q1	Funded per SFY2011 Bypass Criteria.
NR	45	CAIRO, VILLAGE OF	\$ 625,500	TBD	\$ 670,700	\$ 134,140	\$ 536,560	SFY2012-Q1	Funded per SFY2011 Bypass Criteria.
					\$ 26,918,206	\$ 2,383,640	\$ 24,534,566		

SFY 2012 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2012 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	CORTLAND, VILLAGE OF	\$ 55,000	\$ 11,000	\$ 176,111	\$ 35,222	\$ 140,889	SFY2012-Q1	Total included in the Loan above.	
2	HOLSTEIN, VILLAGE OF	\$ 256,000	\$ 44,902	\$ 242,865	\$ 42,609	\$ 200,256	SFY2011-Q4	Amendment planned for SFY2013.	
3	CARROLL, VILLAGE OF	\$ 154,400	\$ 30,880	\$ 154,440	\$ 30,888	\$ 123,552	SFY2011-Q4	Amendment planned for SFY2013.	
4	TERRYTOWN, CITY OF	\$ 1,200,000	\$ 240,000	\$ 1,400,000	\$ 280,000	\$ 1,120,000	SFY2012-Q3	Total Loan of \$1.61M.	
5	ATLANTA, VILLAGE OF	\$ 150,000	\$ 30,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
6	GLENVIL, VILLAGE OF	\$ 379,600	\$ 75,920	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
7	RIVERTON, VILLAGE OF	\$ 100,000	\$ 20,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
8	CARLETON, VILLAGE OF	\$ 60,000	\$ 12,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
9	TALMAGE, VILLAGE OF	\$ 115,700	\$ 23,140	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
10	OSMOND, CITY OF	\$ 225,000	\$ 45,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
11	WEST KNOX RWD	\$ 55,000	\$ 11,000	\$ -	\$ -	\$ -	N/A	Passed on Funding.	
12	CHESTER, VILLAGE OF	\$ 5,000	\$ 1,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
13	CLEARWATER, VILLAGE OF	\$ 500,000	\$ 100,000	\$ -	\$ -	\$ -	N/A	Project delayed, shifted to SFY2013 GPR Planning List.	
14	FUNK, VILLAGE OF	\$ 250,000	\$ 50,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
15	CENTER, VILLAGE OF - SFY 2011	\$ 40,000	\$ 8,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
16	WOLBACH, VILLAGE OF	\$ 95,000	\$ 19,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
17	MONROE, VILLAGE OF	\$ 100,000	\$ 20,000	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
18	HUBBARD, VILLAGE OF	\$ 60,000	\$ 11,772	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
19	ULYSSES, VILLAGE OF	\$ 54,000	\$ 10,800	\$ -	\$ -	\$ -	N/A	Passed on Funding, did not want to install water meters.	
20	ST EDWARD, VILLAGE OF	\$ 150,000	\$ 30,000	\$ -	\$ -	\$ -	N/A	Project delayed, shifted to SFY2013 GPR Planning List.	
21	KENESAW, VILLAGE OF	\$ 150,000	\$ 30,000	\$ -	\$ -	\$ -	N/A	Project delayed, shifted to SFY2013 GPR Planning List.	
SFY 2012 COMPREHENSIVE LIST - BYPASS SYSTEMS				SFY 2012 GPR FUNDED PROGRAM					
29	AURORA, CITY OF	\$ 250,000	TBD	\$ 325,000	\$ 65,000	\$ 260,000	SFY2012-Q4	Funded per SFY2012 Bypass Criteria.	
31	HOLDREGE, CITY OF	\$ 200,000	TBD	\$ 294,910	\$ 58,982	\$ 235,928	SFY2012-Q4	Funded per SFY2012 Bypass Criteria.	
NR	SHELTON, VILLAGE OF	N/A	TBD	\$ 929,567	\$ 185,913	\$ 743,654	SFY2012-Q4	Total included in the Loan above.	
				\$ 3,522,893	\$ 698,614	\$ 2,824,279			

ATTACHMENT 1
DWSRF LOAN STATUS AS OF 6/30/12

SFY 2012
ANNUAL REPORT

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D311223	Adams		P	209,831.00	209,831.00	0.00	2.75	0.00		
D311151	Ainsworth		F	919,790.00	292,442.59	627,347.41	2.50	1,568,368.53		
D311493	Ainsworth		F	350,000.00	94,226.70	255,773.30	3.00	767,319.90		
D311001	Albion		F	492,950.00	252,608.98	240,341.02	3.00	721,023.06		
D311152	Albion			282,000.00	0.00	194,321.00	2.00	388,642.00		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	9,367.93	141,510.07	2.00	283,020.14		
D311496	Alliance	ARRA	F	3,513,951.00	223,256.83	3,290,694.17	2.00	6,581,388.34		
D311511	Alliance		F	595,224.00	49,545.58	545,678.42	2.00	1,091,356.84		
D311393	Ansley		F	595,260.00	89,869.35	505,390.65	3.00	1,516,171.95		
D311225	Arapahoe		P	450,000.00	450,000.00	0.00	2.50	0.00		
D311003	Arlington		F	1,592,435.00	864,414.26	728,020.74	3.47	2,526,231.97		
D311219	Auburn		P	630,784.00	630,784.00	0.00	3.53	0.00		
D311499	Auburn	ARRA		4,504,000.00	102,000.00	4,292,627.00	2.30	9,873,042.10		
D311004	Aurora		P	300,000.00	300,000.00	0.00	2.80	0.00		
D311495	Aurora		P	226,733.00	226,733.00	0.00	3.00	0.00		
D311563	Aurora	GP10		260,000.00	0.00	0.00	2.00	0.00		
D311226	Bancroft		P	591,000.00	591,000.00	0.00	2.50	0.00		
D311227	Barneston		F	32,794.00	23,688.62	9,105.38	2.50	22,763.45		
D311091	Bassett		F	138,342.00	50,411.04	87,930.96	2.50	219,827.40		
D311005	Bayard	ARRA	F	112,065.00	11,648.77	100,416.23	2.00	200,832.46		
D311147	Beatrice		P	826,223.00	826,223.00	0.00	3.18	0.00		
D311538	Beatrice			740,000.00	0.00	0.00	2.00	0.00		
D311006	Beaver Lake Association	UNPL	F	3,276,647.00	848,300.88	2,428,346.12	4.00	9,713,384.48		
D311516	Bellwood	ARRA	F	142,924.00	5,461.77	137,462.23	2.00	274,924.46		
D311073	Benedict		F	455,000.00	7,000.00	448,000.00	3.42	1,532,160.00		
D311142	Bennet		P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet	ARRA	F	612,697.00	37,974.75	574,722.25	2.00	1,149,444.50		
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	4,196,242.62	2,619,457.38	3.03	7,936,955.86		
D311530	Blair			2,341,400.00	0.00	1,526,107.00	2.30	3,510,046.10		
D311131	Bloomfield		F	203,361.00	72,624.82	130,736.18	3.00	392,208.54		
D311491	Bloomfield		F	174,822.00	39,311.52	135,510.48	2.75	372,653.82		
D311093	Bloomington		P	151,697.00	151,697.00	0.00	2.50	0.00		
D311094	Blue Hill		F	459,656.00	207,437.74	252,218.26	3.00	756,654.78		
D311132	Boyd Co. RWD No. 2		F	822,000.00	566,538.65	255,461.35	3.30	843,022.46		
D311288	Bradshaw	ARRA	F	175,669.00	7,230.50	168,438.50	2.00	336,877.00		
D311081	Brady		F	365,547.00	89,060.56	276,486.44	3.30	912,405.25		
D311404	Bridgeport	ARRA	F	775,068.00	48,040.65	727,027.35	2.00	1,454,054.70		
D311529	Bridgeport			1,319,177.00	0.00	682,738.00	2.14	1,461,059.32		
D311405	Bristow		F	80,000.00	30,874.80	49,125.20	2.75	135,094.30		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	102,365.80	1,719,856.20	2.62	4,506,023.24		
D311009	Bruning		F	483,571.00	332,323.31	151,247.69	3.03	458,280.50		
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	205,297.90	14,202.10	3.00	42,606.30		

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D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo			536,560.00	0.00	0.00	2.25	0.00		
D311456	Carroll	GP10		123,552.00	0.00	104,635.00	2.00	209,270.00		
D311159	Cedar-Knox (Lewis & Clark)		F	249,000.00	99,999.59	149,000.41	3.00	447,001.23		
D311524	Cedar-Knox (Lewis & Clark)			67,112.00	0.00	67,112.00	2.00	134,224.00		
D311012	Central City		F	387,572.00	94,591.11	292,980.89	2.75	805,697.45		
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	60,789.48	244,210.52	2.50	610,526.30		
D311509	Clarks			510,000.00	10,000.00	500,000.00	2.00	1,000,000.00		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	GP10		1,670,358.00	0.00	188,619.00	2.55	480,978.45		
D311234	Cozad		P	1,142,471.00	1,142,471.00	0.00	2.75	0.00		
D311149	Crawford		P	668,700.00	668,700.00	0.00	3.00	0.00		
D311557	Creighton	FFATA		449,600.00	0.00	173,775.00	2.50	434,437.50		
D311017	Culbertson		F	236,862.00	106,804.36	130,057.64	3.00	390,172.92		
D311018	Cuming Co. RWD No. 1		F	643,981.00	258,330.16	385,650.84	3.08	1,187,804.59		
D311457	Cuming Co. RWD No. 1		F	323,435.00	10,000.00	313,435.00	2.75	861,946.25		
D311506	Dalton	ARRA	F	197,024.00	12,212.04	184,811.96	2.00	369,623.92		
D311167	Davenport		F	440,000.00	134,828.73	305,171.27	3.40	1,037,582.32		
D311169	David City		F	626,435.00	223,913.69	402,521.31	2.51	1,010,328.49		
D311102	DeWitt		F	650,000.00	161,870.81	488,129.19	2.50	1,220,322.98		
D311238	Dodge		F	56,156.00	20,187.47	35,968.53	2.51	90,281.01		
D311240	Dorchester	GP10		1,451,914.00	0.00	526,434.00	2.00	1,052,868.00		
D311021	Duncan		F	465,000.00	73,276.73	391,723.27	4.30	1,684,410.06		
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	190,728.63	189,281.37	3.03	573,522.55		
D311302	Fairbury		F	694,436.00	184,054.55	510,381.45	2.50	1,275,953.63		
D311176	Fairmont		F	183,582.00	27,185.01	156,396.99	3.54	553,645.34		
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00		
D311536	Firth		F	326,301.00	20,534.80	305,766.20	2.00	611,532.40		
D311512	Friend	ARRA	F	208,508.00	18,055.61	190,452.39	2.00	380,904.78		
D311535	Fullerton		F	366,000.00	22,685.60	343,314.40	2.00	686,628.80		
D311026	Gering	BASE		445,110.00	15,000.00	430,110.00	3.24	1,393,556.40		
D311026	Gering AMD#1	ARRA		6,554,890.00	222,000.00	6,008,973.00	2.30	13,820,637.90		
D311245	Giltner		P	795,462.00	795,462.00	0.00	3.26	0.00		
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00		
D311214	Grafton		F	207,998.00	83,875.72	124,122.28	3.00	372,366.84		
D311104	Grant		F	273,674.00	178,345.09	95,328.91	3.00	285,986.73		
D311467	Gresham		F	88,119.00	29,932.19	58,186.81	2.00	116,373.62		
D311028	Gurley		F	173,280.00	47,578.55	125,701.45	3.74	470,123.42		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311547	Hay Springs	FFATA		305,000.00	0.00	0.00	2.50	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	2,017,900.00	2.00	4,035,800.00		
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00		

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D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00		
D311311	Holdrege	GP10		235,928.00	0.00	0.00	2.00	0.00		
D311544	Holstein	GP10		211,581.00	0.00	166,270.00	2.00	332,540.00		
D311033	Hubbard		F	154,778.00	35,230.82	119,547.18	3.79	453,083.81		
D311109	Humboldt			2,056,400.00	0.00	266,969.00	2.30	614,028.70		
D311545	Humphrey			1,830,594.00	0.00	1,284,375.00	2.25	2,889,843.75		
D311067	Jackson		F	109,339.00	57,690.82	51,648.18	3.00	154,944.54		
D311034	Kearney		F	2,139,420.00	905,246.47	1,234,173.53	3.24	3,998,722.24		
D311282	Kearney		F	1,237,634.00	425,527.31	812,106.69	3.48	2,826,131.28		
D311398	Kearney		F	8,116,884.00	924,108.21	7,192,775.79	3.44	24,743,148.72		
D311540	Kearney		F	212,927.00	13,662.19	199,264.81	2.00	398,529.62		
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00		
D311184	Kimball		F	750,000.00	186,598.30	563,401.70	2.52	1,419,772.28		
D311504	Laurel	ARRA		357,266.00	21,000.00	322,436.00	2.00	644,872.00		
D311548	Lincoln	U/FFATA		15,000,000.00	0.00	1,002,216.00	2.25	2,254,986.00		
D311188	Louisville		F	843,275.00	148,164.85	695,110.15	3.50	2,432,885.53		
D311317	Lyons		F	695,000.00	126,718.12	568,281.88	2.50	1,420,704.70		
D311220	Madison Co. SID #3		F	491,843.00	54,019.74	437,823.26	3.39	1,484,220.85		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		F	9,922,000.00	2,234,582.06	7,687,417.94	2.80	21,524,770.23		
D311130	Metropolitan Utilities Distr.	UNPL	F	755,593.00	505,898.52	249,694.48	3.00	749,083.44		
D311498	Metropolitan Utilities Distr.	UNPL		513,000.00	0.00	178,182.00	2.00	356,364.00		
D311498	Metropolitan Utilities Distr.	U/ARRA		5,446,225.00	240,000.00	4,860,368.00	2.00	9,720,736.00		
D311256	Niobrara		F	175,000.00	57,867.65	117,132.35	3.00	351,397.05		
D311155	Norfolk		P	1,781,318.00	1,781,318.00	0.00	3.00	0.00		
D311515	North Loup	ARRA	F	156,283.00	9,677.85	146,605.15	2.00	293,210.30		
D311042	North Platte		F	3,077,844.00	1,291,204.06	1,786,639.94	3.36	6,003,110.20		
D311322	North Platte		F	6,070,005.00	1,760,756.92	4,309,248.08	3.72	16,030,402.86		
D311078	Oakland		F	400,000.00	360,941.72	39,058.28	3.00	117,174.84		
D311503	Oakland			125,000.00	2,000.00	102,883.00	2.00	205,766.00		
D311138	Odell		F	103,293.00	41,645.47	61,647.53	3.03	186,792.02		
D311500	Oscelola	ARRA	F	270,772.00	16,783.12	253,988.88	2.00	507,977.76		
D311533	Oscelola			1,027,640.00	0.00	800,522.00	2.25	1,801,174.50		
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	269,547.46	759,187.54	2.50	1,897,968.85		
D311505	Phillips	ARRA	F	166,643.00	10,328.95	156,314.05	2.00	312,628.10		
D311543	Pickrell			182,702.00	0.00	0.00	2.00	0.00		
D311532	Platte Center			550,000.00	0.00	487,225.00	2.25	1,096,256.25		
D311051	Plattsmouth		F	1,491,112.00	705,950.75	785,161.25	3.00	2,355,483.75		

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D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	35,363.11	837,593.89	2.00	1,675,187.78		
D311513	Pleasant Dale	ARRA	F	106,126.00	8,795.74	97,330.26	2.00	194,660.52		
D311438	Republican City		F	1,057,060.00	962,671.47	94,388.53	3.00	283,165.59		
D311542	Rogers		F	77,280.00	1,500.00	75,780.00	2.00	151,560.00		
D311218	Saint Paul	ARRA	F	606,000.00	35,752.82	570,247.18	2.38	1,357,188.29		
D311053	Schuyler	ARRA	F	1,560,451.00	64,420.78	1,496,030.22	2.00	2,992,060.44		
D311334	Scotia		F	467,415.00	75,410.52	392,004.48	2.57	1,007,451.51		
D311501	Shelby	ARRA	F	177,707.00	7,301.94	170,405.06	2.00	340,810.12		
D311537	Shelby			1,045,680.00	0.00	619,116.00	2.00	1,238,232.00		
D311514	Shelton	GP11		1,036,000.00	0.00	90,606.00	2.00	181,212.00		
D311056	Sidney		F	1,156,000.00	1,024,306.33	131,693.67	3.00	395,081.01		
D311351	Sidney		F	7,975,000.00	2,875,960.19	5,099,039.81	2.52	12,849,580.32		
D311057	So. Sioux City		F	267,732.00	152,155.49	115,576.51	3.00	346,729.53		
D311268	So. Sioux City		F	1,331,150.00	603,612.15	727,537.85	3.00	2,182,613.55		
D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		F	100,000.00	19,807.00	80,193.00	2.83	226,946.19		
D311058	Stanton		F	344,991.00	268,127.87	76,863.13	3.00	230,589.39		
D311059	Stanton Co. SID #1		F	353,805.00	109,292.98	244,512.02	4.00	978,048.08		
D311146	Stapleton		F	95,953.00	50,604.85	45,348.15	3.01	136,497.93		
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	518,568.00	2.00	1,037,136.00		
D311502	Sutherland	ARRA	F	1,180,291.00	49,471.77	1,130,819.23	2.02	2,284,254.84		
D311089	Tecumseh		F	478,982.00	240,134.83	238,847.17	3.00	716,541.51		
D311077	Tekamah		F	1,247,818.00	440,766.75	807,051.25	3.00	2,421,153.75		
D311550	Terrytown	GP10		1,288,000.00	0.00	0.00	2.00	0.00		
D311068	Utica		F	458,699.00	246,217.97	212,481.03	3.00	637,443.09		
D311126	Valentine		F	450,000.00	180,564.55	269,435.45	3.00	808,306.35		
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	ARRA	F	299,274.00	18,389.05	280,884.95	2.00	561,769.90		
D311071	Waterloo		F	297,522.00	183,998.84	113,523.16	3.36	381,437.82		
D311375	Wauneta			281,600.00	0.00	151,679.00	2.11	320,042.69		
D311276	Wausa		F	289,083.00	95,525.05	193,557.95	3.00	580,673.85		
D311527	Wausa			245,600.00	0.00	175,468.00	2.25	394,803.00		
D311519	Wayne	ARRA	F	762,414.00	31,521.97	730,892.03	2.00	1,461,784.06		
D311558	West Knox RWS-LNNRD	FFATA		886,054.00	0.00	61,726.00	2.50	154,315.00		
D311066	Wood River		F	424,100.00	34,595.83	389,504.17	3.68	1,433,375.35		
D311497	Wymore	ARRA	F	1,489,829.00	91,887.81	1,397,941.19	2.00	2,795,882.38		
D311520	York	U/ARRA	F	2,334,605.00	141,291.56	2,193,313.44	2.00	4,386,626.88		
	SUMMARY			AMOUNT (LOAN ALLOCATIONS)	(PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	LOAN RATE	GROWTH RATE
	TOTAL			178,136,622.00	52,017,639.42	96,284,082.58		255,874,222.50	2.657	2.657

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	NOTE: 25 ARRA LOANS									
	PROJECT IDENTIFIER CODES:									
	AMERICAN RECOVERY AND REINVESTMENT ACT	ARRA								
	FEDERAL FUNDING ACCOUNTABILITY & TRANSPARENCY ACT	FFATA								
	GREEN PROJECT 2010	GP10								
	GREEN PROJECT 2011	GP11								
	UNPLEGED	UNPL								
	UNPLEGED ARRA	U/ARRA								
	UNPLEGED FFATA	U/FFATA								
	STATUS CODES:									
	ACTIVE									
	FINAL		F							
	PAID OFF		P							

ATTACHMENT 2
DWSRF BINDING COMMITMENTS

SFY2012
ANNUAL REPORT

COMMUNITY NAME	PROJECT #D31	SMALL SYSTEM (<10,000)	FISCAL YEAR 2011				FISCAL YEAR 2012			
			1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
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				
HUMBOLDT	1109	X				2,570,500				
WAUSA	1527	X				307,000				
HUMPHREY	1545	X				2,288,242				
ADMINISTRATION										
BRIDGEPORT AMD #1	1529	X					982,291			
CORTLAND	1546	X					2,087,947			
LINCOLN	1548						15,000,000			
SUTHERLAND AMD #1	1502	X					153,331			
PLATTE CENTER AMD #1	1532	X					475,000			
CAIRO	1549	X					670,700			
LAUREL AMD #1	1504	X					-			
CREIGHTON	1557	X						562,000		
WEST KNOX RWS-LNNRD	1558	X							1,107,567	
HAY SPRINGS	1547	X							381,250	
TERRYTOWN	1550	X							1,610,000	
SHELTON	1514	X								1,295,000
HOLDREGE	1311	X								294,910
AURORA	1563	X								325,000
ADMINISTRATION										

ATTACHMENT 2
DWSRF BINDING COMMITMENTS

SFY2012
ANNUAL REPORT

SUMMARY	FISCAL YEAR 2011				FISCAL YEAR 2012			
	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
(1) BINDING COMMITMENT TOTALS	8,442,629	1,815,016	4,527,840	5,727,782	19,369,269	562,000	3,098,817	1,914,910
(2) CUMULATIVE BINDING COMMITMENTS	171,576,200	173,391,216	177,919,056	183,646,838	203,016,107	203,578,107	206,676,924	208,591,834
FY BINDING COMMITMENT TOTALS			FY2011:	20,513,267			FY2012:	24,944,996
(3) REQUIRED BINDING COMMITMENT*	8,137,280				15,066,140			
(4) CUMULATIVE REQUIRED AMOUNT	134,570,757	134,570,757	134,570,757	134,570,757	149,636,897	149,636,897	149,636,897	149,636,897
(5) BC AS % OF REQ'D BC AMOUNT	127.50	128.85	132.21	136.47	135.67	136.05	138.12	139.40
*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, 2010 THROUGH JUNE 30, 2011

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

**Modification of this document may change the accuracy of the original
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Issued on April 10, 2012

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality (Agency) - 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 \$121.5 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$121.5 million required the State to contribute approximately \$24 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, \$1,965,000 in October 2008, and \$3,110,000 in November 2010. 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 (Agency) and the Nebraska Department of Health and Human Services – Division of Public Health. The Agency'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 Agency 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 March 1, 2012, 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:

<u>NAME</u>	<u>TITLE</u>
Tom Lamberson	Deputy Director
Martie Guthrie	Budget Officer III
Shelley Schneider	Division Administrator
Mark B. Herman	Compliance Specialist
Kris Young	Accountant
Amy Wilson	State Accounting
Curtis Youngman	State Accounting
Donna Garden	Financial Assistance Section Supervisor
Chin Chew	Department of Health and Human Services - Engineering Section Supervisor
Marty Link	Acting Water Quality Division Administrator
Mary Brady	Federal Aid Administrator II

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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. ***Cash Management:*** The Agency withdrew Federal funds to reimburse expenses prior to incurring those expenses.
2. ***Federal Reporting:*** Various problems and lack of internal controls were identified related to Federal reporting.
3. ***Loan Testing:*** The Agency was not in compliance with various Federal regulations.

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. Where no response has been included, the Agency declined to respond. 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

1. **Cash Management – [Note: The following comment was included in both the Drinking and Clean Water SRF fiscal year end June 30, 2011, audit reports due to the cross cutting nature of the finding]**

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund and ARRA CWSRF; CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund and ARRA DWSRF – Cash Management

Grant Number & Year: All open grants including #2W-97705101, FFY 2009 (ARRA); #CS-31000110, FFY 2010; #2F-97705601, FFY 2009 (ARRA); #FS-99780507, FFY 2007; #FS-99780509, FFY 2009; and #FS-9978510, FFY 2010

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

Criteria: 31 CFR § 205.12(b)(5) (July 2010) states “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

Per the EPA’s Performance Evaluation Report dated September 22, 2011, “If a draw error of a substantial sum (i.e., \$500K) is made, the NDEQ [Agency] should return the funds rather than use the book entry adjustment method, regardless of the limitations in the ASAP system for displaying available balances.”

Good internal controls and sound business practices require an adequate accounting of funds including tracking the amount spent from each grant, reconciling total draws with total expenditures, and maintaining documentation for figures used to support Federal draws were expended.

Condition: The Agency drew down \$2,808,754 in Federal funds for the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) on April 7, 2011. The Agency had not incurred expenses to warrant this Federal draw. In addition, during testing the Agency did not initially provide the final copy of the draw spreadsheet used to track the excess funds to the Auditor of Public Accounts (APA).

Questioned Costs: None

Context: On April 7, 2011, the Agency drew down \$3,595,223 in Federal funds from the Federal Automated Standard Application for Payments (ASAP) System for the CWSRF and DWSRF programs in anticipation of a Federal government shutdown. Of this amount, \$786,469 could be paid out right away after invoices had been verified. The remaining \$2,808,754 was drawn in excess and should have been returned to the EPA within 30 days. The Agency reported they were not aware of a legitimate process to return these funds, and elected to keep the funds to use on future expenditures. The EPA performs biannual reviews of the State’s Clean and Drinking Water Revolving Funds. The EPA was aware of this large draw and reviewed it and incorporated this in their Performance Evaluation Report.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Cash Management – [Note: The following comment was included in both the Drinking and Clean Water SRF fiscal year end June 30, 2011, audit reports due to the cross cutting nature of the finding] (Continued)

In order to track how the early draws were paid, the Agency developed a spreadsheet where expenditures were grouped by grant and tracked until the early draw had been completely paid. Per the spreadsheet, the last expenditure paid from the early CWSRF draw was on June 23, 2011, and the last expenditure paid from the early DWSRF draw was on June 27, 2011.

Based on the APA's review of the spreadsheet, we noted:

- There were variances between the original spreadsheet we received and the final one received from the EPA. Variances were not significant.
- Documentation was not readily available to support the expenditure and adjustment amounts on the spreadsheet. The APA was able to observe in the State's accounting system that these Federal funds were eventually disbursed; however, the Agency was unable to easily recreate some of the expenditure and adjustment figures included in their spreadsheet.
- The total draws did not agree to total expenditures on the spreadsheet. Expenditures exceeded cash draws by \$81,091 and the Agency was not able to explain these excess expenditures.

Cause: The Agency was not aware of a legitimate process to return excess funds.

Effect: The Agency was not in compliance with Federal regulations. Federal cash draws for funds not specifically requested by a political subdivision increase the risk Federal funds will be improperly used.

Recommendation: We recommend the Agency implement procedures to ensure that funds are only drawn on a reimbursement basis. We further recommend the Agency implement procedures to ensure that if excess funds of \$500,000 or more are drawn that they properly return them to the Federal government within 30 days.

Management Response: The situation described was an atypical one, in which the Agency reacted to legitimate reimbursement requests from SRF loan recipients. The problem occurred due to drawing Federal funds for reimbursements that ultimately were paid as recycled principal. EPA ASAP instructions did not provide the option of returning funds within 30 days if they were drawn incorrectly. The Agency used excess funds drawn as quickly as possible against other Federal draw needs within the Agency, per instructions within the EPA ASAP program.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Cash Management – [Note: The following comment was included in both the Drinking and Clean Water SRF fiscal year end June 30, 2011, audit reports due to the cross cutting nature of the finding]** (Concluded)

Corrective Action: The Agency draws funds on a reimbursement basis the vast majority of time. We are now aware that if funds are drawn in error, they may be returned to the EPA within 30 days without affecting the grant balance. The Agency has also added the subledger (loan number) to receipts within the State Accounting System when draws are made, which will make it easier to match draw requests to specific expenditure payments.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

2. **Federal Reporting**

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

Grant Number & Year: #FS-99780505, FFY 2005; #2F-97705601, FFY 2009 (ARRA)

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

Criteria: The Federal Financial Report (FFR), which replaced the Financial Status Report, requires total Federal program income earned to be reported.

OMB Circular A-133 § 315 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings ... The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit’s schedule of findings and questioned costs relative to Federal awards ... When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”

A good internal control plan requires:

- Federal financial reports are reviewed by management level personnel not involved in report preparation and the review be adequately documented,
- adequate documentation be maintained to support figures reported, and
- a process be in place to ensure data reported agrees to EnterpriseOne, the State’s accounting system.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Federal Reporting (Continued)

Condition: During testing it was noted:

- Two of two FFRs tested were not complete and accurate as program income was not reported.
- Two of two FFRs did not have documentation to support they were prepared and approved by separate individuals.
- The report used to prepare the March 2011 ARRA 1512 report could not be provided or regenerated.
- There was no documentation that EnterpriseOne data was compared to the system the Agency used to generate the data submitted on the March 2011 ARRA 1512 report. This was noted in the prior audit.
- There was no documented supervisory review of the 1512 report prior to the report being submitted to Recovery.gov. This was noted in the prior audit.
- While the receipts reported on the ARRA 1512 report were correct, the APA identified a variance of \$81,675 between the receipts reported on the 1512 report and the receipts recorded in EnterpriseOne. Since EnterpriseOne is the State's accounting system, all receipts and adjustments to receipts recorded on the Federal Automated Standard Application for Payments (ASAP) system should agree to EnterpriseOne.

The summary schedule of prior audit findings in the Nebraska Statewide Single Audit Report for Finding #10-84-07 states the corrective action is complete. The Agency's corrective action was to implement additional reviews and approvals prior to submitting reports. The APA could not observe any documentation to support the reviews or approvals were performed. As of June 30, 2011, this action was not complete.

Questioned Costs: Unknown

Context: During testing it was noted:

- The Agency is required to submit FFRs for non-ARRA grants after the close of the grant period and interim annual FFRs for the ARRA grant. For both the ARRA and FFY 2005 grant, the program income section was left blank on the FFR. The Agency is working with the EPA to address this.
- On October 19, 2010, there was an adjustment done in ASAP to transfer \$81,675 from other grants to the DWSRF ARRA grant. When this adjustment was done in ASAP, a similar entry should have been done in EnterpriseOne, the State's accounting system, to transfer the revenues to the ARRA grant; however, this entry was not completed until May 4, 2011. Because the Agency used the ASAP system figures to report receipts they did not misreport DWSRF ARRA receipts.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Federal Reporting (Concluded)

Cause: During testing it was noted:

- The Agency was working with the EPA to determine how they should report program income on the FFR. An EPA approved methodology had not been determined.
- The Agency did not have documentation to support various reviews and approvals were done prior to report submission. In addition, the Agency did not have documentation to support reconciliations were performed between Federal and State information systems.
- The Agency did not regularly reconcile the Federal information system to the State's accounting system. As a result, an adjustment made in the Federal system and not made in the State's accounting system was not identified until seven months later.

Effect: The Agency was not in compliance with Federal requirements of the ARRA and fiscal year 2005 grant agreements. In addition, without adequate controls in place there is an increased risk reporting to the Federal government will be inaccurate.

Recommendation: We recommend the Agency continue to work with the EPA to develop an approved methodology for calculating and reporting program income. We also recommend the Agency implement procedures to ensure reports submitted to the Federal government have a documented supervisory review. We further recommend the Agency maintain documentation to support the figures included in the reports.

Management Response: On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with the APA. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were missed.

Corrective Action: Documentation will be saved that indicates supervisory approval for the submittal of the 1512 report and the corresponding reconciliation of the PBR Federal information system to the State Accounting System for the same time period. On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with the APA. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

Contact: Martie Guthrie, Budget Officer III and Donna Garden, Financial Assistance Section Supervisor

Anticipated Completion Date: April 14, 2012

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) and ARRA DWSRF – Cash Management/Subrecipient Monitoring

Grant Number & Year: All open grants including #FS-99780509, FFY 2009; #FS-99780510, FFY 2010; #2F-977056010, FFY 2009 (ARRA)

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

Criteria: 31 CFR § 205.12(b)(5) (July 1, 2010) states, “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

2 CFR § 176.210(c) (January 1, 2011) 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 CFR § 176.210(d) (January 1, 2011) 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.”

OMB Circular A-133 § 315 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings ... The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit’s schedule of findings and questioned costs relative to Federal awards ... When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”

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. A good internal control plan requires adequate procedures be in place to ensure disbursements are recorded correctly, which includes identifying which funding source is to be used.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing (Continued)

Condition: During State fiscal year 2011 the Agency paid out \$4,372,384 to 42 political subdivisions. During testing the APA selected 5 loans to political subdivisions who received a total of \$3,440,045 during the State fiscal year and performed detail testing on \$1,105,464 of those disbursements. During testing it was noted:

- For 2 of 14 disbursements tested, the request for reimbursement was sent and reimbursement funds were received prior to the costs being paid to the community.
- For all 5 loans tested, the loan agreement did not contain the CFDA (Catalog of Federal Domestic Assistance) number and title, or the award name and number. In addition, if the loan was ARRA funded, the loan did not include the requirement for the political subdivision to provide appropriate identification of ARRA funds in their Schedule of Expenditures of Federal Awards (SEFA) and SF-SAC (Data Collection Form). This was noted in the prior audit.
- For all 3 loans tested for ARRA funded disbursements, the Federal award number was not communicated to the community.
- For 4 of 5 loans tested, the loan award checklist was not on file. This was noted in the prior audit.
- During testing the APA noted the April 21, 2011, disbursement to Bridgeport was coded incorrectly in the State accounting system (EnterpriseOne) which resulted in payment being made from the incorrect Federal grant.

The summary schedule of prior audit findings in the Nebraska Statewide Single Audit Report for Finding #10-84-06 states the corrective action is complete. The Agency's corrective action was to reinstitute their loan checklist to ensure compliance requirements were met. The corrective action also included adding more items to review during their engineer's onsite checklist. While the Agency did address some of the items reported last year, there were other items that had not been adequately addressed as of June 30, 2011.

Questioned Costs: Unknown

Context: During testing it was noted:

- In October 2010 the Agency drew down excess funds in error. These funds were used to make payments of \$17,901 to Gresham on November 22, 2010. In addition, a \$36,788 payment was made on April 21, 2011, to Bridgeport and this payment used funds drawn on April 7, 2011, which is explained in more detail in Finding #11-84-01 in the Nebraska Statewide Single Audit Report and in Comment Number 1 in this report.
- During the State fiscal year ended June 30, 2011, the standard loan contract did not include the CFDA name and title, as well as the Federal award name and number. As of February 1, 2012, the standard loan contract has been revised and this information has been added.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing (Continued)

- The Agency currently sends out a letter annually to each subrecipient that includes Federal dollars paid by the Agency. This letter includes CFDA information, ARRA funds paid, and SEFA and SF-SAC identification requirements. However, the Federal award number is not included in the letter.
- The Agency began using the loan checklist during the State fiscal year ended June 30, 2011. We noted a loan entered in November 2010 had a loan checklist in the loan file.
- A \$36,788 payment to Bridgeport was paid from the incorrect Federal grant.

Cause:

- Excess funds were drawn in October 2010 due to error and excess funds were drawn in April due to fear of a Federal government shutdown.
- The Agency is now using a loan template which includes the CFDA name and title, as well as the Federal award name and number.
- The Agency was not aware they needed to include the Federal award number on the letter sent to political subdivisions.
- The Agency started using the loan checklist during the State fiscal year ended June 30, 2011.
- Incorrect coding in EnterpriseOne was the result of a clerical error.

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:

- The Agency implement procedures to ensure requests for Federal funds are only made after payment to the political subdivisions have been made.
- The Agency incorporate the Federal grant award number in their annual correspondence with political subdivisions.
- A loan award checklist is completed for every loan that is awarded.
- The Agency implement procedures to ensure disbursements are recorded to the correct business unit.

Management Response: The Agency 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. Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were delayed.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing (Concluded)

Corrective Action: As of February 1, 2012, the Agency adopted and is using a new template for loan contracts that includes the CFDA number and title, as well as the Federal grant award name and number. The Agency will use the standard grant award number without the fiscal year extension, so that contracts would be inclusive of any currently open or future grants available for payment of reimbursement requests.

The Agency will continue to send out a yearly letter to remind political subdivisions of the Single Audit Act. The letter will provide the amount of Federal and State loan funds, loan forgiveness, and ARRA funds. The letter will contain CFDA name and number and the Federal grant award name and number.

The Agency will continue to include in the file of every loan awarded, the loan award checklist to ensure all administrative and mailing procedures have been completed for all loans awarded.

Contact: Pat Rice, Assistant Director, Water Division; Donna Garden, Supervisor Financial Assistance Section

Anticipated Completion Date: 2/1/12 – for new contract templates; 10/1/12 – for annual Single Audit Act letter to subdivisions



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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, 2011, 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 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, 2011, 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, 2011, 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 April 2, 2012, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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 April 2, 2012, 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

April 2, 2012

Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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, 2011. This analysis has been prepared by management of the Agency, 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% due to increased interest revenues from loans to political subdivisions and fewer ARRA Principal Forgiveness expenses incurred since the majority of ARRA funds had been expended during the prior fiscal year. Revenues for the Program increased 16% as the increase in the number of loans awarded due to ARRA the previous year, began to increase repayments on loans. Expenses decreased by 58% also due to the fact that the majority of ARRA loans had been awarded and paid the previous year. The amount drawn from the EPA from grant awards decreased by 74%, as most of the ARRA grants had been paid out to communities in the form of loans.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

NET ASSETS			
	2011	2010	% Change
Current Assets	\$ 46,280,045	\$ 48,078,694	(4%)
Noncurrent Assets	90,185,920	80,611,326	12%
Total Assets	136,465,965	128,690,020	6%
Current Liabilities	1,940,733	1,619,054	20%
Noncurrent Liabilities	14,875,703	13,110,000	13%
Total Liabilities	16,816,436	14,729,054	14%
Net Assets:			
Restricted	2,273,757	1,968,875	15%
Unrestricted	117,375,772	111,992,091	5%
Total Net Assets	\$ 119,649,529	\$ 113,960,966	5%

CHANGES IN NET ASSETS			
	2011	2010	% Change
Loan Fees Administration	\$ 913,202	\$ 732,680	25%
Interest	3,928,206	3,440,707	14%
Fines, Forfeits, and Penalties	199	-	100%
Total Operating Revenues	4,841,607	4,173,387	16%
Administration	1,942,189	2,371,214	(18%)
Bond Expenses	757,236	660,133	15%
ARRA Loan Forgiveness	1,495,884	8,481,804	(82%)
Non ARRA Loan Forgiveness	631,428	-	100%
Total Operating Expenses	4,826,737	11,513,151	(58%)
Operating Income	14,870	(7,339,764)	100%
Capital Federal Grants	4,387,064	14,422,710	(70%)
Capital Contributions ARRA Grants	3,275,783	15,715,842	(79%)
Change in Net Assets	7,677,717	22,798,788	(66%)
Beginning Net Assets July 1	113,960,966	91,162,178	25%
Prior Period Adjustment	(1,989,154)	-	100%
Total Net Assets, Beginning of Year	111,971,812	91,162,178	23%
Ending Net Assets June 30	\$ 119,649,529	\$ 113,960,966	5%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The most significant change from the fiscal year ended June 30, 2010, to the fiscal year ended June 30, 2011, was the increase in Operating Income. The American Recovery and Reinvestment Act (ARRA) funds received by the Agency, in the form of community loans, had a principal forgiveness component in it. This was recorded as an expense in the year it was paid out. Most of the loans paid with principal forgiveness components in them, were paid out during fiscal year 2010. Therefore in fiscal year 2011, as the grants were depleted, due to reaching the limits of awards to be made, less funds were expended as principal forgiveness. 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 national economic decline in recent years; however, net State tax revenues for fiscal year 2011 finished the year 4% above projections. The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains to be a challenge for communities in funding major capital projects. Declining population bases make it difficult to draw the amount of user fees needed to fund infrastructure requirements. For the fiscal year ended June 30, 2011, the Program received \$3.3 million in ARRA funds (compared to \$15.7 million of ARRA funds in fiscal year 2010), and about half of those funds were provided as principal forgiveness to communities. The ARRA funding does not require a State match.

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 \$30 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

The average ARRA base blended loans are 25 percent principal forgiveness. The remaining 75 percent is issued to communities as low-interest loans at 2 percent. 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.

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, 2011

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 24,061,483
Amounts Held by Trustee (Note 2)	16,232,570
Interest Receivable	50,950
Loan Interest Receivable	5,895
Administrative Fees Receivable	3,423
Loans Receivable (Note 3)	5,925,724
TOTAL CURRENT ASSETS	46,280,045
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	90,185,920
TOTAL NON-CURRENT ASSETS	90,185,920
TOTAL ASSETS	\$ 136,465,965
 LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	\$ 229,910
Compensated Absences (Note 5)	1,182
Accrued Bond Interest Payable	349,641
Bonds Payable (Note 4)	1,360,000
TOTAL CURRENT LIABILITIES	1,940,733
NON-CURRENT LIABILITIES	
Compensated Absences (Note 5)	15,703
Bonds Payable (Note 4)	14,860,000
TOTAL NON-CURRENT LIABILITIES	14,875,703
TOTAL LIABILITIES	16,816,436
 NET ASSETS	
Restricted for Bond Payments	2,273,757
Unrestricted	117,375,772
TOTAL NET ASSETS	119,649,529
TOTAL LIABILITIES AND NET ASSETS	\$ 136,465,965

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, 2011

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	\$ 913,202
Interest on Loans	2,726,366
Interest on Fund Balance - Trustee	437,126
Interest on Fund Balance - State Operating Investment Pool (Note 8)	764,714
Fines, Forfeits, and Penalties	199
TOTAL OPERATING REVENUES	4,841,607
OPERATING EXPENSES:	
Administration From Fees (Note 10)	485,024
4% Administrative Costs from Grant	125,000
15% Source Water Assessment Program (Note 10)	634,837
2% Technical Assistance to Small Systems (Note 10)	272,716
10% Public Water Supply System (Note 10)	424,612
30% Principal Forgiveness (Note 10)	631,428
50% Principal Forgiveness ARRA (Note 10)	1,495,884
Bond Rebate Fee Expense	39,435
Interest Expense - State Match Bonds (Note 10)	660,152
Cost of Bond Issuance	57,649
TOTAL OPERATING EXPENSES	4,826,737
OPERATING INCOME	14,870
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS	4,387,064
CAPITAL CONTRIBUTIONS - ARRA FEDERAL GRANTS	3,275,783
CHANGE IN NET ASSETS	7,677,717
TOTAL NET ASSETS, BEGINNING OF YEAR	113,960,966
PRIOR PERIOD ADJUSTMENT (Note 14)	(1,989,154)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	111,971,812
TOTAL NET ASSETS, END OF YEAR	\$ 119,649,529

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, 2011

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 10,179,778
Interest on Investments	1,201,841
Payments to Borrowers	(12,842,039)
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)
Principal Forgiveness	(843,564)
Principal Forgiveness ARRA	(1,283,748)
Bond Principal Payments	(1,295,000)
Bond Interest Payments	(634,566)
Bond Issue	3,070,565
Cost of Bond Issuance	(57,649)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(6,191,811)
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	4,387,064
Funds Repaid to the Environmental Protection Agency	(1,989,154)
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	\$ 40,294,053
RECONCILIATION OF OPERATING INCOME (LOSS)	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 14,870
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS)	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(8,333,445)
(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
Increase/(Decrease) in Accounts Payable	229,910
Increase/(Decrease) in Compensated Absences	16,885
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (6,191,811)

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Agency) - 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 Agency 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 Agency is a State agency established under and governed by the laws of the State of Nebraska. As such, the Agency 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 Agency 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 Agency.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

In addition to the funds above, the Agency created Fund 48410 to track ARRA activity.

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 Agency 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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, 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 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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 Agency'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.

I. Compensated Absences

All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

Program employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or at

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

The Program financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

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 Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (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 \$16,232,570 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	10,481,250
Guaranteed Investment Contracts (GICs) in CDC Funding Corporation	5,681,230
TOTAL	\$ 16,232,570

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 \$10,551,340 in deposits held by the Trustee, \$250,000 was covered by FDIC insurance and \$10,301,340 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 United 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) 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 (c) 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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 personal 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. As of June 30, 2011, the GIC was rated AAA by Standard & Poor's Rating Group.
- 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. Loans Receivable

As of June 30, 2011, the Program had 123 outstanding balances totaling \$96,111,644. The outstanding balances of the ten communities with the largest loan balances, which represents 58% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>
Kearney	\$ 9,926,709
McCook	7,909,547
North Platte	6,510,416
Gering	6,269,471
Sidney	5,801,711
Metropolitan Utilities District	5,585,946
Auburn	4,772,585
Alliance	3,981,810
Blair	3,660,484
Hickman	1,521,976
TOTAL	<u>\$ 55,940,655</u>

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, 2008A, and 2010A 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, 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 2012. Bonds payable for the fiscal year ended June 30, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	<u>\$ 14,405,000</u>	<u>\$ 3,110,000</u>	<u>\$ 1,295,000</u>	<u>\$ 16,220,000</u>	<u>\$ 1,360,000</u>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Bonds Payable (Concluded)

Bonds payable at June 30, 2011, consist 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	0.9-4.0%	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, and 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
2017-2021	5,565,000	971,973	6,536,973
2022-2026	1,780,000	162,963	1,942,963
TOTAL	\$ 16,220,000	\$ 3,829,064	\$ 20,049,064

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 38,088	\$ -	\$ 21,203	\$ 16,885	\$ 1,182

6. 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, 2011. 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, 2011, 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	8,223,624	5,676
2007	8,229,000	8,150,313	78,687
2008	8,146,000	7,867,111	278,889
2009 ARRA	19,500,000	18,779,489	720,511
2009	8,146,000	6,711,351	1,434,649
2010	13,573,000	666,968	12,906,032
TOTAL	\$ 141,423,726	\$ 125,999,282	\$ 15,424,444

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 October 1, 2010.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. Net Assets (Concluded)

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

Contributed Capital July 1, 2010	\$ 124,283,425
Contributed During the Year:	
Funds From EPA	4,387,064
Funds Returned to the EPA	(1,989,154)
Funds From ARRA	3,275,783
Contributed Capital June 30, 2011	<u>\$ 129,957,118</u>

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 during the fiscal year ended June 30, 2010.

7. 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.

8. 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.

9. 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 primary operating revenues of the Program are the Loan Fees Administration and interest from loans, since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and principal forgiveness. Interest expenses are also operating expenses since making loans is the primary purpose of the Program.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. 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.

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;

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. Operating Expenses (Continued)

- 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% Principal Forgiveness

The amount of expenses reported as Principal Forgiveness is the amount the State forgave principal payments on 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. Operating Expenses (Concluded)

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.

11. 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.

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 Agency 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 \$9,953 and the Agency contributed \$15,527. 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.nebraska.gov.

12. Contingencies and Commitments

Risk Management. The Agency 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 Agency, 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. Contingencies and Commitments (Concluded)

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

13. Subsequent Event

Two significant items occurred after the fiscal year ended June 30, 2011.

On July 1, 2011, subsequent to June 30, 2011, the Agency redeemed series 2001A, 2002A, 2003A, 2005A, and 2006A bonds in the principal amount of \$5,725,000 and accrued interest in the amount of \$124,123.

Prior to the end of the fiscal year, the Agency was in discussions with the City of Lincoln to issue an unpledged loan to them for \$15,000,000 out of the Drinking Water State Revolving Fund. The loan was not finalized until after the end of the fiscal year, as the agreement was dated July 26, 2011. As of the date of this report, payments have not yet

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13. Subsequent Event (Concluded)

been made to the City of Lincoln for this agreement. However the Agency was aware of its potential impact on debt service and considered this impact prior to finalizing a loan. The Agency applied the situation and modeled the attestation report with a \$15,000,000 unpledged City of Lincoln loan to observe its impact on debt service. The debt service ratio was not adversely affected; therefore, the Agency proceeded in finalizing a loan with the City of Lincoln.

14. Prior Period Adjustment

The Agency has restated its Net Assets at July 1, 2010, as a result of overstating revenues last year related to a Federal draw of \$1,989,154 during fiscal year 2010 which was ultimately paid back to the Federal government during fiscal year 2011. The effect of this adjustment on beginning Net Assets on July 1, 2010, was a decrease of \$1,989,154.



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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, 2011, and have issued our report thereon dated April 2, 2012. 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

Management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program is responsible for establishing and maintaining effective 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 over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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.

Compliance and Other Matters

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 1 (Cash Management), Comment Number 2 (Federal Reporting), and Comment Number 3 (Loan Testing).

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 responses and accordingly, we express no opinion on them.

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

April 2, 2012

Don Dunlap, CPA
Assistant Deputy Auditor



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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

Compliance

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, 2011. 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.

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.

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 the Program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* and which are described in the Comments Section of this report as Comment Number 1 (Cash Management), Comment 2 (Federal Reporting), and Comment Number 3 (Loan Testing).

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 and to test and report on internal control over compliance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, 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 Agency'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 1 (Cash Management) and Comment Number 2 (Federal 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.

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

April 2, 2012

Don Dunlap CPA
Assistant Deputy Auditor

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY2012 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
AURORA, CITY OF	Replacement Water Service Meters	The installation will consist of an upgrade to automatic radio read meters or meter interface units, and thus are categorically eligible for funding under the GPR.	N/A	N/A
CAIRO, VILLAGE OF	Replacement Well with Standby Power, Water Tower Repainting and New System Controls	The PWS has two active supply wells (Nos. 95-1 and 95-2) in a wellfield to the north of town, and one in-town well (No. 92-1) designated for backup emergency use only due to poor water quality. Arsenic was detected at a concentration of 10 µg/L in Well No. 92-1 in 1994. The Engineer reported that the well had high iron and manganese levels in recent a Necessity Survey and it was noted in the Village's 2002 Reaudit that the well pumped brown colored water. Historical monitoring of the wellfield supply source shows no significant concerns with maintaining compliance with EPA's drinking water standards, except that Arsenic levels have ranged from 8.37 µg/L to 9.41 µg/L in compliance samples collected to date, which are below the EPA Maximum Contaminant Level of 10 µg/L. The proposed replacement well site selected will allow feasible piping to a centralized treatment facility, should Arsenic levels ever increase in the future. The wellfield and the Village are located in separate electrical service areas; as such a standby power source is planned for the proposed well installation. The remaining phases of the project include an upgraded control system and repainting of the Village's 250,000 gallon water tower. That tower was built in 1996, and adequately meets the projected needs for the community.	Arsenic was detected at a concentration of 10 µg/L in Well No. 92-1. That well is scheduled for replacement as part of this project.	N/A
CORTLAND, VILLAGE OF	Replacement Well, Water Tower, Primary Distribution System Loop, Replacement Mains & New Meters	The PWS has two active supply wells (Nos. 75-1 and 81-1) and one backup well (No. 38-1) designated for emergency use only. Recent performance testing showed that the active wells are in good condition, but that the backup well appears to be pumping some sand. Historical monitoring of the supply sources shows no concerns with maintaining compliance with EPA's drinking water standards, both the primary and secondary Maximum Contaminant Levels. In conjunction with the systems' active supply wells approaching their design life though, a need to replace the backup well was established. A new 500 gallon per minute (gpm) well will be drilled to serve as the PWS's primary supply well, equipped with an auxiliary generator so that the Village will be able to maintain supply during power outages. A well site has been identified to the north of the Village, connected to the existing system through a planned 8" sized transmission main. Storage for the distribution system is provided through an undersized 30,000 gallon legged water tower, which was constructed around 1938. Presently, the tower is only in need of minor repairs and expected routine maintenance, but due to its' age and a design year Average Day Demand of ~71,000 gallons, it was recommended for replacement. A new 200,000-gallon capacity tower will be constructed, which is being reasonably sized for both future growth and fire protection supply needs. Due to the size and scope of the overall project, and the financial impact to the development of capacity for the PWS, the demolition of the existing structure is considered integral to the project and may also be funded through the DWSRF. The majority of the existing distribution system consists of undersized 2" and 4" water main. A hydraulic analysis identified that the improved flows to existing restricted areas would be achieved by replacing existing 4" main through the central part of the Village with a primary 8" sized loop. Further, scattered sections of undersized water main in the system may also be replaced. Lastly, the Village has started the process to install water meters and will complete the installation on all service connections as part of the proposed project. That system improvement is categorically eligible for funding through the GPR.	N/A	The installation of the new water meters promote conservation/water efficiency, and thus are categorically eligible for funding under the GPR. Further, the majority of the project achieves the goals of the EPA's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
CREIGHTON, CITY OF	Water Treatment Plant Upgrade	The City was issued an Administrative Order (A.O.) on May 25, 2011 for violations of the EPA's MCL for Nitrates. The A.O. required that a Treatment Plant Efficiency Report be prepared for the City's existing reverse osmosis (RO) treatment plant. That compliance report was prepared on July 25, 2011 and included an evaluation of replacement RO membranes in treatment trains 1 & 2, installed concurrent with the A.O. The report noted that the upgraded membranes and targeted improvements in the operation of the plant resulted in reduced concentrations of Nitrates, dropping back down to half of the MCL. As such it was recommended that the City replace the remaining membranes in treatment trains 3 & 4 and make other upgrades in the RO plant. By July 2011 the City decided to proceed with the upgrade to the RO plant, which may include dechlorination of backwash water, backwash water discharges to Bazzie Creek would ever need to occur under their NPDES permit. Other project phases may include new SCADA controls and an auxiliary power supply for the plant, plus additional improvements to the public water supply system (i.e., VFDs, replacement valves, etc.).	The project will help ensure that the City maintains compliance with EPAs MCL for Nitrates.	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
HAY SPRINGS, CITY OF	Replacement Well with Standby Power	A Preliminary Engineering Report developed for the City in January 2011 concluded that a replacement well is needed. Well No. 94-1 experienced a pump failure in 2008 due to the pump bows rubbing on the well casing. Subsequent video inspections confirmed that due to extensive casing damage, the well needed to be re-lined or abandoned. The inspection report recommended construction of a replacement well due to the age of the existing well and the uncertainty of Well No. 94-1's useful operation life. The replacement well will be equipped with an emergency generator so that supply can be maintained during power outages. A well site has been identified near the existing City wells, and analytical results from a completed test hole show no water quality concerns.	N/A	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
HOLDREGE, CITY OF	Replacement Water Service Meters	The installation will consist of an upgrade to automatic radio read meters or meter interface units, and thus are categorically eligible for funding under the GPR.	N/A	N/A
LINCOLN, CITY OF	Treatment Plant Rehabilitation and Upgrade, Water Main Replacements	Lincoln's water treatment plant is supplied with raw water from wells along the Platte River and has a capacity of 110 million gallons per day. There are over 1,200 miles of pipe within the City's distribution system. The water main scheduled for replacement is in poor condition, and in certain areas was installed up to 120 years ago. The age and physical deterioration make it necessary for replacement. With respect to the treatment plant project phases, the system's Capital Improvements Plan (CIP) identified the need to replace a high service pump and replace existing Variable Frequency Drives. Lastly, assessment by LWS engineering staff concluded the need for replacement of the dehumidification system and damaged equipment at the treatment plant, due to high humidity conditions, and that de-chlorination of the plant filter wash water is necessary in order to remain in compliance with the facility's NPDES Permit.	N/A	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
SHELTON, VILLAGE OF	Replacement Well and New Water Service Meters	The Village's public water system consists of two active municipal wells (Nos. 2002-1 and 2005-1), an elevated 180,000 gallon water storage tower, and a distribution system. In May of 2008, the Village placed another well (No. 97-1) on emergency use only status, due to levels of Arsenic (13 µg/L) above the MCL. In 2009, the Village's Engineer completed an assessment of Shelton's water needs and recommended that a replacement well be completed in the deeper portion of the alluvium aquifer underlying the area. The well will also provide redundancy should an active well fail or be out of service for maintenance. The second phase of the project is the installation of new water meters on each service connection. Meters will be installed in customer's homes or in meter boxes or pits off the curb line. Thus the project will likely reduce water consumption by the community, as water meters encourage conservation.	Arsenic concentrations detected in the deeper portion continue to increase, ranging from 4.92 µg/L (2002-1) and 4.67 µg/L (2005-1) during initial compliance testing, up to 5.57 µg/L (2002-1) and 8.04 µg/L (2005-1) in 2011. 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 above the MCL in the future.	The water meter phase of the project is categorically eligible for the GPR, as new water meters are being installed in a previously unmetered public water system.
TERRYTOWN, CITY OF	New Water Service Meters	Installation of new water meters on services presently not metered and thus are categorically eligible for funding under the GPR.	N/A	N/A
WEST KNOX RWD	Feasibility Study and New Well with Transmission Main	An Appraisal Report developed for the West Knox Rural Water District (WKRWD) in March 2011 assessed the potential for the District to expand its service area to supply the City of Creighton, Villages of Center and Niobrara, and the Santee Indian Reservation. The report was funded through the U.S. Bureau of Reclamation (BOR) Rural Water Supply Program. Following issuance of the report, Creighton opted to drop out of the proposed rural water system expansion, with the District and remaining entities proceeding forward with the Feasibility Study phase. Per the BOR's requirements, the study should identify, evaluate, and recommend to the WKRWD, the Villages and Reservation an appropriate, implementable solution to the identified problems and opportunities raised in the Appraisal Report. An alternative in the Appraisal Report identified an area for expansion of the WKRWD's wellfield. The report recommended additional test drilling of the area due to preliminary data that showed Nitrate levels ranging from 3.5 to 5.7 mg/L. Concurrent with the Feasibility Study, the District is proceeding with the development of a production well within the proposed wellfield expansion area. The well will supply existing customers and will provide a greater amount of data to conclude whether the new area can support the additional supply wells, should the Feasibility Study recommend proceeding with the overall expansion project. Regardless, the District's existing wells are nearly 30 years old; therefore, the development of an additional source for existing customers is a reasonable stand-alone project for the WKRWD, as those existing wells approach their design life.	N/A	The present water supplies for the Villages and Reservation have elevated levels of iron and/or Manganese above the EPAs Secondary Maximum Contaminant Levels (SMCLs). SMCLs 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 people may stop using water from their PWS even though the water is actually safe to drink. The study will address those quality and other quantity concerns through the possible interconnection with the WKRWD. The Feasibility Study requires a 50/50 Federal to Local cost share, with that local source of match funds to be disbursed solely from the DWSRFs State Repaid Principal account of funds (i.e., Non-Federal cost share).