

**State of Nebraska
Department of Environment & Energy
Department of Health & Human Services
Division of Public Health**

Drinking Water State Revolving Fund Annual Report

State Fiscal Year 2019



October 2019

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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, Program). Nebraska has provided annual reports to EPA in lieu of the biennial report requirement. This annual report is for the State Fiscal Year (SFY) 2019 (July 1, 2018 through June 30, 2019). This report is a combined effort of the Nebraska Department of Environment and Energy (NDEE, Agency) 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 2019 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 \$253 million, plus loan forgiveness over \$31 million, to 233 Public Water System (PWS) projects beginning with the program's inception in year 1997 through June 30, 2019. The Federal Fiscal Year (FFY) 2018 EPA capitalization grant has not been awarded, and thus will be discussed in next year's annual report.

I. FINANCIAL SCHEDULES SECTION

BACKGROUND

The Nebraska Department of Environment & Energy (NDEE, 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 Nebraska 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 with some forgiveness 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 may choose to have up to 40 years to repay all loans.

The Program was capitalized by the 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, 2019, the EPA awarded \$193.7 million in capitalization grants to the state, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$193.7 million required the state to contribute approximately \$42.64 million in matching funds. The state provided appropriations to contribute \$2.21 million of the funds to meet the state's matching requirement. Additional matching funds were obtained through the issuance of long-term revenue bonds or through cash from the Special Reserve Accounts of retired bonds or from transfers out of the Drinking Water Administration Fund.

The NDEE was formerly known as the Nebraska Department of Environmental Quality (NDEQ) until July 1, 2019 when the Governor of Nebraska created a new agency by merging the NDEQ and the Nebraska Department of Energy together to form the NDEE. This was mainly an agency name change and did not impact the Program. For the purposes of this report, references to "NDEQ" and "NDEE" are synonymous with each other. 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 NDHHS-DPH establishes the funding priorities and the Nebraska Environmental Quality Council (EQC) approves the rules and regulations of the Agency and the Program's IUP.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of financial report presents a narrative overview and analysis of the financial activities of the Program for the SFY 2019. 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, which 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 and include the following:

1) Balance Sheet. The Balance Sheet presents information on all of the Program's assets and liabilities, with the difference between the two reported as net position;

2) Statement of Revenues, Expenses, and Changes in Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Program's net position changed during the most recent fiscal year.

3) Statement of Cash Flows. 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; and

4) Notes of the Financial Statements. 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 – ENTERPRISE FUND

Changes in Net Position

For SFY 2019, the net position of the Program increased by 4.31%. The cash balance increased significantly due to several large loan payoffs, amounting to over \$7.2 million for the fiscal year. The decrease in Liabilities is mainly due to a decrease in Accounts Payable and Accrued Liabilities of almost \$135,000.

NET POSITION			
	2019	2018	% Change
	\$		
Current Assets	122,553,310	115,713,373	5.91%
Non-current Assets	82,662,405	81,207,773	1.79%
Total Assets	205,215,714	196,921,146	4.21%
Current Liabilities	332,827	490,634	-32.16%
Non-current Liabilities	23,096	28,273	-18.31%
Total Liabilities	355,923	518,907	-31.41%
Net Position:			
Net Investment in Capital Assets	331,771	251,330	32.01%
Unrestricted	204,528,020	196,150,909	4.27%
Total Net Position	\$ 204,859,793	\$ 196,402,239	4.21%

CHANGES IN NET POSITION

	2019	2018	% Change
Loan Fees Administration	\$ 816,475	\$ 822,515	-.73%
Interest on Loans	1,918,849	1,881,994	1.96%
Other Operating Income	46,615	72,457	-35.67%
Total Operating Revenues	2,781,939	2,776,966	.18%
Administration & Set-Asides	1,768,669	2,264,108	-62.81%
Loan Forgiveness	1,588,366	2,059,248	-22.87%
Total Operating Expenses	3,357,034	4,323,356	-22.35%
Operating Income (Loss)	(575,095)	(1,546,390)	-62.81%
Federal Grants	6,357,024	7,916,315	24.07%
Interest Revenue	2,680,325	2,257,965	18.71%
Bond Expenses	(4,701)	(2,190)	100%
Total Non-Operating Revenue (Expense)	9,113,089	10,172,090	-10.41%
Change in Net Position	8,537,994	8,625,700	-1.02%
Beginning Net Position July 1	196,402,239	187,776,539	4.59%
Ending Net Position June 30	\$ 204,940,233	\$ 196,402,239	4.35%

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 Program and are expected when draws are based on community requests. To more accurately reflect the type of revenue being reported, interest on investing activities has been reclassified from operating revenue to non-operating revenue.

ECONOMIC OUTLOOK

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 a challenge for communities in funding major capital projects. Declining population bases make it difficult to collect the amount of user fees needed to fund infrastructure requirements.

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

LGTS is a comprehensive software application developed by Northbridge Environmental, which is designed for Nebraska's State Revolving Fund (SRF) managers and staff to track and manage all aspects of their Clean and Drinking Water SRF programs from project loan application to final repayment, as well as to track all capital contributions, set-aside spending, and bond issuance and repayment.

The software was developed to address the data management needs for all of the steps in the SRF management process, including priority list development, facility location and identification,

engineering review and milestone tracking, inspections, contacts, contract approvals and change orders, detailed payment request processing, project spending forecasts, encumbrances, funding draws and transfers, disbursements, amortization schedule creation and management, billing, repayment processing, fund deposits, and tracking of repaid funds by their original source. The software also contains a general ledger that each state can customize to match existing accounting systems and create trial balances, financial statements, and related financial schedules.

LGTS is based on defined roles that each user is responsible for in the program. Security roles limit function and access abilities based upon the user's authorization for adding, removing, and editing information within the program.

Historical data was extracted from spreadsheets and other data systems to load LGTS with data, test the validity of the data, and ensure that LGTS can be used effectively. This task was handled by a combination of staff efforts to assemble existing data sources and outside help to ensure that the data would be used properly. This process usually yields a dual benefit of having a system with clean data and provides a quality assurance check of the many transactions that have occurred years ago and often by a number of staff members.

Nebraska's SRF programs have implemented the LGTS system. During fiscal year 2014, planning of the implementation phases, business rules, and hardware/software installations occurred. During fiscal years 2015 and 2016, the system was used concurrently with existing systems to create a basis for reliability and consistency. In 2017, the existing internal system was discontinued, and LGTS became the sole system for use within the SRF program alongside the State accounting system. NDEE has found that LGTS has reduced the occurrence of human error, which in turn increases efficiency and time savings.

Contract costs for the purchase and implementation of the LGTS system have been handled through the existing Northbridge contract with EPA procurement. Therefore, expenditures are withheld as an "in-kind" deduction to the total annual grant, which is awarded to the program each year. Federal EPA staff negotiate, monitor, and manage the Northbridge contract for LGTS.

The agency is capitalizing the costs that the EPA reimburses directly to Northbridge, as well as the cost of staff time utilized for implementation.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED BALANCE SHEET
 Fiscal Year Ended June 30, 2019

Enterprise Fund

ASSETS

CURRENT ASSETS

Cash & Cash Equivalents:

Cash in State Treasury (Note 2)	\$ 116,927,549
Due from Federal Government	53,831
Interest Receivable	234,530
Loans Receivable (Note 3)	5,337,400

TOTAL CURRENT ASSETS	122,553,310
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NON-CURRENT ASSETS

Loans Receivable (Note 3)	\$ 82,330,633
Capital Assets, Net (Note 4)	331,771

TOTAL NON-CURRENT ASSETS	82,662,405
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TOTAL ASSETS	\$ 205,215,714
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	\$ 63,013
Due to Grant Recipients (Note 1)	267,530
Compensated Absences (Note 6)	2,284

TOTAL CURRENT LIABILITIES	\$ 332,827
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NON-CURRENT LIABILITIES

Compensated Absences (Note 6)	23,096
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TOTAL NON-CURRENT LIABILITIES	23,096
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TOTAL LIABILITIES	\$ 355,923
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NET POSITION

Net Investment in Capital Assets	331,771
Unrestricted	204,528,020

TOTAL NET POSITION	204,859,793
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TOTAL LIABILITIES AND NET POSITION	\$ 205,215,715
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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2019

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	\$ 816,475
Interest on Loans	1,918,849
Other Operating Income	46,615
TOTAL OPERATING REVENUES	\$ 2,781,939
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	447,647
15% Source Water Assessment Program (Note 10)	451,448
2% Technical Assistance to Small Systems (Note 10)	110,572
10% Public Water Supply System (Note 10)	759,001
Loan Forgiveness (Note 10)	1,588,366
TOTAL OPERATING EXPENSES	\$ 3,357,034
OPERATING LOSS	\$ (575,095)
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	\$ 6,357,024
Capital Contributions - Federal Grants - Capital Assets	80,441
Interest on Fund Balance - State Operating Investment Pool (Note 9)	2,680,325
Interest Expense on Bonds Payable (Short-Term)	(4,701)
Cost of Bond Issuance	
TOTAL NONOPERATING REVENUE (EXPENSE)	\$ 9,113,089
CHANGE IN NET POSITION	8,537,994
TOTAL NET POSITION, BEGINNING OF YEAR AS RESTATED	196,402,239
TOTAL NET POSITION, END OF YEAR	\$ 204,940,233

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 8,448,679
Payments to Borrowers	(6,862,604)
Payments for Administration	(463,859)
Payments for 15% Source Water Assessment Program	(560,130)
Payments for 2% Technical Assistance to Small Systems	(120,640)
Payments for 10% Public Water Supply System	(764,541)
Payments for Loan Forgiveness	(1,610,846)
Receipts from Other Operating Income	46,615
NET CASH USED BY OPERATING ACTIVITIES	\$ (1,887,326)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received From the Environmental Protection Agency	\$ 6,397,146
Bond Interest Payments (Short-Term)	(4,701)
Payment for Bond Issuance Costs (Short-Term)	
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	\$ 6,392,445
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital Contributions	\$ 80,441
Purchase of Capital Assets	(80,441)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	\$ 0
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	\$ 2,655,370
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 2,655,370
Net Increase in Cash and Cash Equivalents	7,160,487
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	109,767,062
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 116,927,549
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Net Operating Loss	\$ (575,095)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(1,149,249)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(134,814)
Increase/(Decrease) in Compensated Absences	(5,690)
Increase/(Decrease) in Payables to Grant Recipients	(22,480)
NET CASH USED BY OPERATING ACTIVITIES	\$ (1,877,328)

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 (Trustee) for the State match bond accounts.

B. Reporting Entity

The Program 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 also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on the Program or whose relationship with the Program is so significant that exclusion would be misleading or incomplete. The 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. The Agency is also considered financially accountable if an organization is fiscally dependent on, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Agency, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the 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 State accounting system

includes the following Program funds, as identified in the Drinking Water State Revolving Fund Act:

- Drinking Water Facilities Funds – Federal Funds 48416, 48418 and 48419; and Bond Funds 68481, 68482, 68483, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

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

The activity of these State of Nebraska funds has 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 it 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, as they meet the definition of special revenue funds under GASB Statement 54. In that statement, special revenue funds are defined as funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. 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 position.

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.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the State Treasury. This includes cash in bank accounts and petty cash, 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, 2018, 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, which 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.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. 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. After the final disbursement has been made, the amortization schedule identified in the loan agreement is adjusted for the actual amounts disbursed. The interest rates on loans range from 1.5% to 4.0%, and the terms on outstanding loans range from 13 to 30 years. Disadvantaged communities may have up to 40 years to repay.

The Program loans are funded from Federal capitalization grants, State match funding, and the Drinking Water State Revolving Fund. The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. Reimbursements to communities are paid 100% from State matching funds until they have been exhausted, and then from Federal capitalization grant funds or Drinking Water State Revolving funds. The Drinking Water State Revolving Fund is financed through principal repayments plus interest earnings becoming available to finance new projects, allowing the funds to "revolve" over time.

The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2019, which is collectible in fiscal year 2020. Loans receivable that were paid in full, prior to their due date, as of August 31, 2019, were included in the current loans receivable balance as opposed to the long-term loans receivable balances.

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. 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.

H. Compensated Absences

All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than be 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 currently eligible

to receive termination payments and other employees 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 240 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 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's 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.

I. 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 operating revenues of the Program include loan fees administration and interest on loans, since making loans is the primary purpose of the Program. The operating expenses of the Program are administration and set-aside expenses and loan forgiveness.

J. Capital Assets

The Program has only one capital asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Agency began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and was completed during the fiscal year ended June 30, 2018. The LGTS software is considered an intangible capital asset, and the Agency follows the capitalization policy set forth by the State of Nebraska for intangible capital assets, which requires capitalization of such assets when the cost of such asset is in excess of \$100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the developmental phase and the software being put into production and it will be computed using the straight-line method over the estimated useful life of the asset.

NOTES

1. Due to Grant Recipients

Planning Grants for Preliminary Engineering Reviews are awarded through the Federal Capitalization Grant 15% set-aside funds. The Program awards Planning Grants to communities with populations below 10,000 where the Public Water System is operated by a political subdivision. Available grants are given upon evidence that the eligible Public Water System has entered into a contract with a professional engineer to develop a preliminary engineering report. Planning Grants are intended to provide financial

assistance to Public Water Systems for projects seeking funding through the Water Wastewater Advisory Committee common pre-application process. The grant covers 90% of the preliminary engineering report and other eligible costs and will require 10% matching funds from the Public Water System.

Source Water Protection Grants are also awarded through the Federal Capitalization Grant 15% set-aside funds. They are available for proactive projects geared toward protecting Nebraska's drinking water supplies and will address drinking water quality, quantity, security, and/or education. Eligible applicants are political subdivisions that operate a Public Water System serving a population of 10,000 or fewer.

The Program may choose to provide additional subsidization for municipalities in the form of loan forgiveness. Forgiveness funds will be targeted primarily to the highest ranked eligible projects on the Priority Funding Lists, those that address public health needs, or those that have the components to meet Green Project Reserve guidelines. The loan recipient will not be required to repay the portion of the loan principal that has been designated as loan forgiveness under the terms and conditions of the loan contract. Loan forgiveness is considered a grant for purposes of the financial statements, since repayment is not required.

For Planning Grants, Source Water Protection Grants, and Loan Forgiveness awards, once the municipality submits proof of vendor payment to the Agency, it is reimbursed for its project costs by the Program. The Program's financial statements recognized the expense and accrued liability to the Program when the municipality incurred the project expense, which may not be in the same fiscal year as when costs were reimbursed by the Program.

2. Cash in State Treasury and Amounts Held by Trustee

Cash in State Treasury – The 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, 2019. All interest revenue is allocated to the General Fund except allocations required by law to be made to other funds. All funds of the Program were designated for investment during fiscal year 2019. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee – At June 30, 2019, there were no Program funds held by the Trustee, as all outstanding bonds were paid off.

3. Loans Receivable

As of June 30, 2019, the Program had 132 outstanding community loans that totaled \$87,668,034. The outstanding balances of the 10 communities with the largest loan balances, which represent 45.5% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>	
Lincoln	\$	11,656,899
Sidney		4,638,990
MUD-Omaha		3,749,630
Auburn		3,574,741
Falls City		3,260,746
Oshkosh		2,894,572
Scribner		2,761,923
Blair		2,646,586
Alliance		2,541,881
Utica		2,129,946
TOTAL	\$	39,855,914

4. Capital Assets

The Drinking Water SRF capital assets activity for the year ended June 30, 2019, was:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Software Development In-Progress Loans and Grants Trackin System (LGTS)	\$ 251,330	\$ 80,441	\$ -	\$ 331,771

5. Bonds Payable

The State has entered into a special financing arrangement with Nebraska Investment Finance Authority (NIFA), an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues the bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes.

Short-Term Bonds – The proceeds of short-term revenue bonds are sometimes used by the Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants. Interest revenue from Program loans is pledged to pay off the bonds. During the fiscal year, the Program issued a \$2,200,000 Short Term Bond and utilized \$21,400 of administrative cash funds to meet their match requirements for the 2018 DWSRF grant.

6. Non-current Liabilities

Changes in non-current liabilities for the year ended June 30, 2019, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within 1 Year</u>
Compensated Absences	\$ 31,070	\$ 0	\$ 7,974	\$ 23,096	\$ 2,284

7. Capital Contributions

Included in the net position is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2019. 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, 2019, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1997	\$ 12,824,000	\$ 12,824,000	\$ -
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 - ARRA	19,500,000	19,500,000	-
2009	8,146,000	8,146,000	-
2010	13,573,000	13,573,000	-
2011	9,418,000	9,418,000	-
2012	8,695,558	8,695,558	-
2013	8,533,907	8,533,907	-
2014	8,845,000	8,845,000	-
2015	8,681,560	8,681,560	-
2016	8,280,275	8,280,275	-
2017	8,312,000	8,163,557	148,443
2018	11,036,000	5,356,247	5,679,753
TOTAL	\$ 213,226,026	\$207,397,830	\$5,828,196

Not included in the above grant totals are the amounts set aside as in-kind contributions for the Loans and Grants Tracking System (LGTS) software development. The 2012 grant had \$166,535 and the 2015 grant had \$105,440 and the 2016 grant had \$31,725 set aside as in-kind amounts for use by the EPA for the development of the new LGTS software.

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2019, was \$80,441. The total amount utilized for LGTS as of June 30, 2019, was \$331,771. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program which also utilizes the LGTS software.

8. Loan Fees Administration

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. These fees are not included in the loan principal. It is calculated on a semi-annual basis and billed when loan principal and interest payments are due. The fee is applied to all loans in accordance with Title 131 Nebraska Administrative Code (NAC) Chapter 8 and the loan agreement.

9. 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.

10. Operating Expenses

The operating expenses of the Program are classified, for financial reporting purposes, into five categories. There were expenses related to three set-aside activities established under §1452 of the Safe Drinking Water Act. The three set-aside activities are:

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

A Memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services so that the Agency can carry out oversight and related activities of the Program. The Program provides funding to the Nebraska Department of Health and Human Services with the three set-asides noted above.

All set-asides 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 Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these categories:

Administrative Costs from Fees

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is deposited into a separate account and is used for administrative costs of the Program. Revenues from fees can be used to provide the capitalization grant match, loan forgiveness, or planning grants.

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:

- Provide 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;
- Support the establishment and implementation of wellhead protection programs; and

- 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% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority 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% of the grant funds awarded to do the following:

- Administer the State Public Water System Supervision 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.

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments the State subsidized to communities meeting the definition of “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 50% of the amount of the capitalization grant for that year.

11. State Employees Retirement Plan (Plan)

The single-employer Plan became effective by statute on January 1, 1964. The Public Employees Retirement Board was created in 1971 to administer the Plan. 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 either to continue participation in the defined contribution option or to 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 are 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 18 years may exercise the option to begin participation in the retirement system.

Contribution – Per statute, each member contributes 4.8% of his or her 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.

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, 2019, employees contributed \$7,101 and the Agency contributed \$11,077. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

The State of Nebraska Comprehensive Annual Financial Report (CAFR) also includes pension-related disclosures. The CAFR report 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. The Department of Administrative Services is responsible for maintaining the insurance and self-insurance programs for the State. The State typically self-insures for general liability, employee health care, employee indemnification, and workers’ compensation. The State has chosen to purchase insurance for the following:

- A. Motor vehicle liability, which is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident. Insurance is also purchased, with various limits and deductibles, for physical damage and

uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles.

- B. Crime coverage, with a limit of \$31,000,000 for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- C. 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 \$10,000,000 for 120 days and, after 120 days, if the property has not been reported, the limit decreases to \$5,000,000. 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 \$237,622,813 in total loan allocations, of which \$134,264,854 was repaid; \$87,668,034 is outstanding, leaving \$15,689,925 still to be disbursed. Details on the Fund portfolio of 233 loans are in Attachment 1. The blended interest rate on the State Fiscal Year (SFY) 2019 outstanding loan balance is 2.16%. The result was an overall 2.4 basis point decrease from SFY 2018. The blended rate will decrease again over the next year.

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

The DWSRF entered into eight binding commitments in order to provide financial assistance to PWS projects totaling \$10,286,699 in the past fiscal year. Of that amount, disadvantaged communities received \$1,809,613 in forgiveness funding. All of the minimum grant conditions for additional subsidization (e.g., principal forgiveness) and the Green Project Reserve (GPR) (e.g., water meters), for all open capitalization grants were met.

Attachment 2 provides information showing the loan agreements entered into during SFY 2019 by quarter and shows the cumulative binding commitment amount since the program initiation. The requirement is to allocate 100% of the capitalization grant and required state match, less set-asides, within one year of receiving the grant payment. The cumulative requirement is \$211,727,953. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of \$299,651,945 or 142% of the required amount.

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 for staffing. However, funds were reserved from the most recent capitalization grant for implementation of the Loan and Grant Tracking Software (LGTS), a comprehensive software application now fully online, that will be designed specifically for Nebraska's DWSRF to track and manage all aspects of program loans, capital contributions, and bond issuance and repayment.

DWSRF oversight at NDHHS-DPH has included the following activities:

- 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 NDEE with information on potential DWSRF loan applicants.
- Developed the Set-Aside Work Plan.
- Prepared DWSRF Intended Use Plan documents.
- Performed technical reviews of preliminary engineering reports for DWSRF projects.
- 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 NDEE 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 NDEE with input on Finding of No Significant Impact (FNSIs) and Categorical Exclusions.
- Performed NDHHS-DPH capacity development strategy related reviews.
- Completed special EPA / DWSRF workload activities as requested.
- Participated in the EPA and State program audits.
- Reviewed Operation and Maintenance Manuals for DWSRF funded projects.

Funds from the Administration Cash Fund paid salaries and associated expenses of personnel administering the DWSRF program at NDEE. DWSRF administration in NDEE has included the following activities:

- Developed program documents and procedures.
- Solicited applications.
- Issued the Intended Use Plan.
- 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 and/or bond procurement.
- Bond redemption.
- Disbursement processing.
- Loan servicing.
- Financial accounting.
- EPA and State project and program audits.
- Financial modeling.
- Attended state and national meetings.
- Tested different marketing efforts.

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

During SFY 2019 NDHHS-DPH had contracts with two assistance providers. The first was the Midwest Assistance Program (MAP). 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.
- 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.
- MAP made 26 contacts each month, with at least 15 on-site and 5 in-office contacts.

The second contract was with the Nebraska Rural Water Association (NeRWA), which helped small systems with:

- Determine what technical, financial and/or managerial assistance is needed.
- 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.
- Provide instruction sessions to Board/Council members and Owners of community water systems regarding the technical, managerial, and financial aspects of running a sustainable water system.

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 approximately 12 staff employed primarily 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, Groundwater Geologists in the Groundwater Section at NDEE were also funded, when 15% set-a-side funds were expended.

B. Capacity Development

From July 1, 2018 through June 30, 2019, MAP, under the technical, financial and managerial contract, made system visits with an average of 26 contacts per month for a total of 310 contacts involving 222 PWSs. During the same time period, the NeRWA provided 10 board/council training sessions and 8 follow-up financial and managerial assessments to systems receiving SRF funding.

In SFY 2018, Field Services representatives performed 396 Routine Sanitary Surveys (RSS) and 47 Follow-up surveys. The normal rotation for sanitary surveys is every three years for Community and Non-Transient Non-Community systems and every five years for Transient Non-Community systems. There were 199 Community, 46 Non-Transient, and 135 Transient Non-Community Routine Sanitary Surveys performed. The numbers of deficiencies found are as follows:

Community Systems:

Significant: 439 Minor: 158

A total of 597 deficiencies. Average of ~3.0 significant or minor deficiencies per system.

Non-Transient Non-Community Systems (NTNC):

Significant: 73 Minor: 21

A total of 94 deficiencies. Average of ~1.7 significant or minor deficiency per system.

Transient Non-Community Systems:

Significant: 141 Minor: 28

A total of 169 deficiencies. Average of ~1.25 significant or minor deficiencies per system.

The vast majority of these are record keeping related deficiencies. Of the 860 significant and minor deficiencies found in SFY 2019 there are 158 left to still be corrected. This means that for SFY 2019 Nebraska had 81.6% deficiency correction rate. There are 60 PWSs that had a Routine Sanitary Surveys from the fiscal year that still have at least one outstanding deficiency. Eighty-five percent of the PWSs have fully corrected all deficiencies that were found. With increased attention being paid to sanitary survey deficiencies, we fully expect the deficiency correction number to increase in SFY 2020. Utilizing the Safe Drinking Water Information System (SDWIS) database, the State can effectively compare survey and deficiency data.

The proposed change in strategy still remains, the program will keep track of deficiencies but put more emphasis on getting the number of violations to decrease with a proactive response to systems with problems. PWS are given 120 days to correct significant deficiencies, and 12 months to correct minor deficiencies. Of the 60 PWS with deficiencies still to be corrected, 45 have not exceeded those time frames, and would not be considered in violation. The goal of this strategy is to lower the number of violations so that the water systems in Nebraska can meet compliance standards and achieve long term sustainability. Due to the fact that the number of systems not correcting deficiencies identified in SFY 2019, as required, remained static when compared to SFY 2018, our goal is not being met at this time.

C. Operator Certification

NDHHS-DPH held ten water operator training courses applicable to various grade levels during SFY 2019. Water operator licenses were issued to 179 individuals. The number issued per license grade is as follows:

- Grade I - 0 license
- Grade II - 5 licenses
- Grade III - 21 licenses
- Grade IV - 153 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 IV is Nebraska's lowest level of license for a person to be able to operate a Community or Non-transient Non-Community PWS. Grade I is the highest.

Grade V water operators are not included in this report. A Grade V 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 require those licenses be renewed every two years.

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

A. Land Acquisition for Source Water Protection

Funds potentially available were not used for land acquisition. The funds were primarily used for drinking water facility loans. The program plans to make its first land acquisition loan next fiscal year.

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. NDEE 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.

Drinking Water Protection (Source Water and Wellhead Protection) staff are funded with 15% DWSRF set-aside and Clean Water Act Section 319 Nonpoint Source Pollution funds money. NDEE staff continue to work with public water suppliers to develop protection actions for their drinking water supplies. Staff have updated Drinking Water Protection Area maps (or adopted the acceptable work of others) for Nebraska public water supplies. As of June 30, 2019, a cumulative 116 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 and was increased to \$150,000 in 2018 to accommodate an increase of applications. The communities of Creighton, Dodge, Plainview, and West Knox Rural Water District were selected to receive Source Water Grants totaling approximately \$150,000 from the 2019 Capitalization Grant. Activities that will be funded this year include: developing aquifer vulnerability assessments to better understand their local hydrogeology to assist in and implementing of best management practices aimed at reducing groundwater nitrate levels, locating new sources of sustainable water, and public education and outreach.

Unutilized DWSRF 15% set-aside personnel funds were spent on a vadose zone (unsaturated sediment) sampling project. Products of the project include: an information interface for accessing nitrate vadose zone results and sharing information, standardized protocol for collecting and analyzing cores used in estimating nitrate occurrences and transportation potential, and optical data and laboratory analysis which will permit identification of nitrate transport and potentially attenuation rates. Personnel funds were also utilized for the Groundwater Evaluation Toolbox for Wellhead Protection. This web based subscription services utilizes 7 regional numeric groundwater models to run reverse particle tracking which creates time-of-travel capture zones. Statewide models cover 510 of the 522 community PWS with their own supply of water. This tool increase modeling speed and efficiency and produces and easily defendable pier reviewed delineation.

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 PWSs 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 PWSs 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 PWSs remained at \$25,000. Four grant awards were made in SFY 2018 totaling \$60,000, with two to high priority ranked communities planning to address compliance with drinking water standards. In addition, the program awarded two grants as part of a pilot program, wherein non-public health projects that are deemed likely ready to proceed with construction were offered planning grant funds.

Since its inception in SFY 2002, the DWSRF has awarded planning grants to 136 communities for a total of \$1,765,320.

D. Security Grants

Letters were sent to all community PWSs with populations less than 10,000 notifying them of the security grant program in SFY 2019. The maximum grant award was \$10,000, with a 10% match required on all awards. The majority of that funding was awarded last fiscal year resulting in the following types of security improvements being made to public water systems being installed: alarms/cameras (11), backup power (6), buildings/doors/etc. (4), fencing/lighting (8), and mapping (11) for a total of 33 grants and \$271,967 awarded.

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 that utilize DWSRF 2% set-aside monies, and writing and submitting all necessary reports and other documents required as part of this program. A key role of the program coordinator position is to provide trainings for public water system operators and owners in areas such as asset management; capacity development; drought mitigation; and water distribution system history for PWSs. Due to this position being vacant for the first half of SFY 2019, and focus on training the new coordinator the second half, no trainings were held in the fiscal year.

7. Match Discussion

The ratio for match purposes is initially 1/6 state, 5/6 federal, for an 83.33% Automatic Clearing House (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, 2019 the ACH draw was \$176,556,416 and the match disbursement was \$38,897,581 for an ACH draw as a percentage of grant plus match disbursements ratio of 81.95%. This ratio indicates that the state has overmatched on this requirement.

For SFY 2019, match disbursements have been completed with 100% of the state match drawn first, prior to any request for associated capitalization grant loan funds.

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.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
- Drinking Water National Information Management System(DWNIMS), Project Benefits Reporting (PBR) system, and Federal Funding Accountability Transparency Act (FFATA) 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 as listed below:

Environmental Reviews were conducted on eleven PWS projects during SFY 2019. It was determined that no Environmental Impact Statements were necessary; instead Environmental Assessments were prepared and Finding of No Significant Impact Statements were issued for Albion, Fairbury and Wisner, and Categorical Exclusions

provided for the Boyd County Rural Water District (RWD) No. 2, Central City, Crookston, Dorchester, Kearney, Plattsmouth (two projects) and Shelton projects.

FFATA entries were made for Aurora, O'Neill and Wisner, with one last planned entry for Fairbury to satisfy the FFY 18 grant. Several large loans are planned to satisfy the FFATA requirements for the FFY 19 grant. Also, project signs were provided to all the FFY 18 grant identified projects.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2019 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 low interest rates.*

This goal was accomplished across the board for all projects funded in SFY 2019. With the return of market interest rates towards an estimated neutral level, program interest rates for all loans were maintained at 2% during the fiscal year. A planned regulation change was enacted following the end of the fiscal year, and rates were dropped to 1.5% in response to lowering market rates.

- 2. To commit available loan funds to as many of the highest priority systems as possible.*

There were four of these loans closed during SFY 2019. With one project to address long-term concerns with nitrates, and another for an immediately need to replace a failed water tower resulting in an e-coli administrative order for a community. The remaining two were for sustainability/affordability concerns.

- 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 there under.*

All loans closed this past fiscal year with the DWSRF met this goal. Descriptions of the individual projects are provided in Attachment 4.

- 4. To assist systems in meeting required drinking water quality standards. This includes giving priority to systems with compliance deadlines established by the NDHHS-DPH.*

Priority points were given to Ogallala to address nitrate issues, and O'Neill for the noted e-coli issue.

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

See responses to number 3. Of note, funding was provided to the Plattsmouth for the development for water system mapping. Further, NDHHS-DPH routinely provides

technical, financial, and managerial assistance to PWSs. The MAP and NeRWA, as the 2% Team Contractors, provided technical, financial, and managerial assistance to small systems throughout Nebraska.

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

All systems that closed loans in SFY 2019 with the DWSRF, with the exception of the City of Kearney, were below 10,000 population. Over 90% of the funding provided met this goal.

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.

NDEE has delineated or adopted all community PWS Drinking Water Protection area maps (Wellhead Protection and Watershed Delineations). Maps are updated and drawn as needed for community PWSs. A relational database is utilized to manage Wellhead and Source Water Protection data.

9. To develop a marketing program.

Through funding provided by EPA this was initiated by a consultant performing a stakeholder and program review event. Local advertising was tested through the state's public broadcasting network. Further, staff have developed and issued a newsletter which is being mailed to communities on a yearly basis. It is planned that a set effort for marketing the SRF will be put forth within the next 1 to 3 years.

3. Long Term Goals and Accomplishments

Seven long-term goals were included in the SFY 2019 Intended Use Plan. The goals are listed and discussed as follows:

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

In establishing the financial structure of the DWSRF, the program has tried to provide the lowest reasonable interest rate loans for projects that address human health problems. Reflective of recent economic concerns, rates were maintained at 2% across the board this fiscal year, with a reduction necessary next year due to lowering market conditions. 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. Disbursements have been completed with 100% of the state match funds drawn first, prior to any request for associated capitalization grant funds. It is further anticipated that a partial cash match

will be made for the next capitalization grant, which would further cement the long-term financial footing of the fund.

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 continuously updated 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 continues to incorporate the most appropriate readiness to proceed criteria to match PWS funding needs in the State. Records of systems user charges are now compiled by the NeRWA and program staff, reviewed periodically for comparison to the program's established affordability criteria, based on median household incomes.

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

In SFY 2019, two of the eight loan agreements was made to proactively mitigate future or immediately address public health issues. In addition, through the 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 water systems. 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. Further, the Interagency PER Template developed by the Federal agency leads of Nebraska's water infrastructure funding programs was adopted by the WWAC.

5. 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.

Nebraska's DWSRF program has provided low-interest loans and some forgiveness each year of the program since its inception. With the continued mandatory subsidization requirement of not less than 20% up to 30% with the FFY 2018 and upcoming 2019 capitalization grants, 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. These programs have provided state and/or federal financial assistance to make drinking water infrastructure projects affordable in the State.

6. To balance 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. 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. Projected market and inflation rates are continually monitored, and assessments made to likely events which could impact fund decisions. Further, in maintaining rates at 2%, the program at least matches the U.S. Federal Reserve's long-term goal for inflation.

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

NDHHS-DPH conducts routine sanitary surveys of PWSs and NDEE 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 projects to allow systems with the greatest public health needs to have first chance at program funding.

C. Funded Program

The Annual Report reflects the results and changes from the SFY 2019 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 21, 2018. More detailed project information for the loans closed in SFY 2019 is provided in Attachment 4, followed by a brief synopsis of the Funding and Planning List communities that closed loans during the fiscal year.

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. 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, starting first with the SFY 2019 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Raven's Nest – The scope of this project is being finalized, it will be funded by the DWSRF next fiscal year.

Fairbury, City of – The scope of this project is being finalized, it will be funded by the DWSRF next fiscal year.

Wisner, City of – The scope of this project is being finalized, it will be funded by the DWSRF next fiscal year.

Plymouth, Village of – Chose to privately fund their water main replacement project.

North Bend, City of – Chose to privately fund their water supply well project.

Metropolitan Utilities District of Omaha – Chose to privately fund their water treatment plant rehabilitation project.

Chadron, City of – The scope of this project is being finalized, it may be funded by the DWSRF next fiscal year.

David City, City of – Chose to privately fund their water main replacement project.

Gibbon, City of – Chose to privately fund their well relining project.

Hickman, City of – The project start has been delayed by the City, it may be funded by the DWSRF next fiscal year.

Mullen, Village of – The project start has been delayed by the Village, it may be funded by the DWSRF next fiscal year.

Ord, City of – Chose to privately fund their water main project.

Giltner, Village of – Chose to privately fund their water main project.

Lancaster County RWD No.1 – Chose to privately fund their water tower rehab project.

Lincoln, City of – Chose to privately fund their water projects.

Cuming County RWD No.1 – Chose to privately fund their water tower rehab project.

Sumner, Village of – Project was inadvertently coded as plans and specifications under preparation by their Engineer.

Planning List Projects

Albion, City of – The City will fund their second replacement well project through the DWSRF in SFY 2020, due to levels of selenium that increased earlier this decade.

Alexandria, Village of – Their backup supply well and water main replacement project has been funded by USDA.

Beaver City, Village of – Their replacement well and tank project has been funded by USDA.

Bradshaw, Village of – Have continued discussions with their engineer to replace the standpipe in the water system.

Bristow, Village of – Is developing a replacement water source project due to bacteriological concerns, which may be funded by the USDA.

Burr, Village of – May fund their water meter installation project through the DWSRF in SFY 2020.

Cass Co. RWD No. 1 – Will fund a water main replacement project through the DWSRF in SFY 2020.

Cedar Bluffs, Village of – Is studying new water source alternatives to address the arsenic concerns with their source of supply.

Cedar-Knox RWD – Is studying new water source alternatives to address their Disinfection Byproducts control issues.

Central City, City of – The City will fund their blending and replacement mains project through the DWSRF in SFY 2020.

Cody, Village of – May fund their water tower rehabilitation project through the DWSRF in SFY 2020.

Crete, City of – May fund their tank replacement and water main project through the DWSRF in SFY 2020.

Crookston, Village of – Chose to privately fund their water tank rehabilitation project.

Dodge, Village of – Is studying new water source alternatives to address the nitrate and corrosion control concerns with their source of supply.

Dorchester, Village of – Will fund their water main replacement project through the DWSRF in SFY 2020.

Dunning, Village of – May fund their water main replacement project through the DWSRF in SFY 2021.

Edgar, City of – Their interconnection project has been funded by USDA to address a Nitrate A.O.

Ewing, Village of – Will fund their water tower and main replacement project through the DWSRF in SFY 2020, along with CDBG funding.

Fairfield, Village of – Will fund a new well project through the DWSRF in SFY 2020.

Greeley, Village of – Their replacement WTP project will likely be funded by USDA.

Gretna, City of – Chose to privately fund their new well project.

Jansen, Village of – A decision on funding this project will be made in SFY 2020.

Marquette, Village of – Will fund a replacement well project through the DWSRF in SFY 2020.

Martinsburg, Village of – Will fund their well and standpipe replacement project through the DWSRF in SFY 2020, along with CDBG funding, to address their Uranium A.O.

Norfolk, City of – Chose to privately fund their new water tower project.

Platte Center, Village of – Will fund a replacement well project through the DWSRF in SFY 2020.

Rulo, Village of – Chose not to proceed with a project due to the anticipated water rate increases. Program staff will continue discussions with community to determine if rate increases can be limited.

Shelton, Village of – Will fund a water main replacement project through the DWSRF in SFY 2020.

Swanton, Village of – Their backup well project has been funded by USDA.

Syracuse, City of – Will likely fund a new wellfield and land acquisition projects through the DWSRF in SFY 2020.

Wauneta, Village of – Their replacement water supply wells has been funded by USDA to address their Arsenic A.O.

Wolbach, Village of – Chose not to proceed with any federal or state funding for a project due to the requirement to add water meters to their system.

West Knox Rural Water District – They plan to petition Congress for a direct appropriation for their project. If successful, the DWSRF will provide the match amount in a loan from the program's repaid principal account.

In addition to that noted above, in March of 2019 a flood disaster hit the state which had major impacts on utility infrastructure in numerous communities. The DWSRF under the guidance released through a EPA and Federal Emergency Management Agency (FEMA) memorandum of understanding has signed loans with the cities of Peru and Plattsmouth, as well as the Boyd County RWD No. 2, for immediate public assistance aid. Further, it is likely that additional loans will be signed for permanent mitigation projects in the noted cities. These loans are for the disbursement of state program funds only at 0% rates, with balloon repayment schedules, as the water systems await anticipated grant reimbursements from FEMA.

Lastly, the communities of Beaver City, Greeley, Hartington, Lyons, Martinsburg, and Whitney submitted preliminary engineering reports to NDHHS-DPH, for a review for potential funding assistance through the WWAC.

D. Program Changes and Program Changes under Consideration

The DWSRF is considering developing a program wherein it would provide increased assistance to small disadvantaged communities to work with the Innovative Readiness Training program of the U.S. military, to maximize cost savings for towns deemed most suitable for both programs.

Several years back a need was identified that a change from primarily funding Public Health Projects had to be made, and a Pilot Program was started to best identify how to offer forgiveness assistance to meet the requirements of the EPA capitalization grants. The timing of evaluating the results of that program however, coincided with a significant level of increased Federal assistance to the infrastructure funding in the State. As such, all that was learned was simple, for projects that are voluntary, i.e., that a community

does not necessarily have to construct, when smaller Nebraska towns are offered the maximum amount of forgiveness allowed by Statute, 50%, some will proceed with a project and others will not. A loan with 50% forgiveness, still has 50% principal that needs to be repaid. Fifty percent forgiveness does not necessarily result in a “ready to proceed project.” Upon learning that, maximum 50% forgiveness offers were modeled for all qualifying infrastructure replacement projects, and it was determined to be unsustainable for the program. That, in conjunction with the loan only side of the program having been limited under current economic conditions, due to competition from the private market (lower interest rates), plus competing offers from other government programs and the added DWSRF program requirements of American Iron and Steel and Davis Bacon resulted similarly in simple program changes for SFY 2020.

Forgiveness assistance offers will be still be capped per the long established MHI disadvantaged criteria, but now following a tiered system:

Public Health Projects

- 1) Population of 10,000 or less – Capped at 20%
- 2) Population of 3,300 or less – Capped at 25%
- 3) Population of 500 or less – Capped at 30%

Low Priority Projects ranked with a Sustainability Factor, or greater

- 1) Population of 10,000 or less – Capped at 15%
- 2) Population of 3,300 or less – Capped at 20%
- 3) Population of 500 or less – Capped at 25%

That sustainability factor remains the already established major infrastructure replacement ranking criteria, consisting of the Replacement of Wells, Tanks, and/or Distribution System replacement being at least 50% of the project cost.

The state authority for Nebraska’s SRF programs is established by the Nebraska Revised Statutes and regulated through Nebraska Administrative Code Title 131 – Rules and Regulations for the Wastewater Treatment Facilities and Drinking Water Construction Assistance Program (Title 131). In July of 2017, Nebraska’s Governor issued Executive Order 17-04 (EO 17-04), titled “Regulatory Reform”, which directed all state agencies to review existing and pending agency regulations and revise or repeal any regulations that were found to be more restrictive than required, repetitive, or causing unnecessary burdens to Nebraskans. EO 17-04 halted a regulatory amendment proposal that was approved by the Environmental Quality Council (EQC) on June 13, 2017 and awaiting the Governor’s approval to take effect. The NDEE retracted the amendment proposal and incorporated the changes into the new regulatory overhaul to accomplish the objectives in EO 17-04. A new amendment proposal for Title 131 was presented to and approved by the EQC in June of 2019. Majority of the changes proposed to the Title were to reduce regulations that were redundant and already existing in either the Nebraska Revised Statutes or in federal authorities. It also removed restrictive regulation language limiting SRF eligibility and financing options. Nebraska Governor approved the regulation amendments and the new regulations became effective as of July 21, 2019.

Additionally, In January of 2019, Legislative Bill 307 (LB307) was introduced to the Nebraska Legislature, proposing to amend Nebraska Revised Statutes for the SRF programs to allow the authority to transfer funds of the reserved amount between the DWSRF and CWSRF loan cash funds as is allowable through federal regulations. The state statute at that time had restrictive

language referencing outdated federal regulations, which had since been amended and changed and the amendment was needed to remain consistent with current federal requirements and language. LB307 was approved by the Governor on March 12, 2019. The SFY2020 IUP was updated and identifies the eligible transferable amounts between the programs.

**ATTACHMENT 1
DWSRF LOAN INVESTMENT STATUS REPORT**

SFY 2019
ANNUAL REPORT

PROJ #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311223	Adams		P	209,831.00	209,831.00	0.00	2.75	0.00		
D311613	Adams	FFATA	F	1,978,898.00	25,298.97	1,953,599.03	2.00	3,907,198.06		
D311151	Ainsworth		P	919,790.00	919,790.00	0.00	2.50	0.00		
D311493	Ainsworth		P	350,000.00	350,000.00	0.00	3.00	0.00		
D311001	Albion		P	492,950.00	492,950.00	0.00	3.00	0.00		
D311152	Albion		F	282,000.00	72,637.45	209,362.55	2.00	418,725.10		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	56,900.43	93,977.57	2.00	187,955.14		
D311496	Alliance	ARRA	F	3,513,951.00	1,328,401.57	2,185,549.43	2.00	4,371,098.86		
D311511	Alliance		F	595,224.00	238,892.84	356,331.16	2.00	712,662.32		
D311393	Ansley		P	595,260.00	595,260.00	0.00	3.00	0.00		
D311225	Arapahoe		P	450,000.00	450,000.00	0.00	2.50	0.00		
D311003	Arlington		P	1,592,435.00	1,592,435.00	0.00	3.47	0.00		
D311219	Auburn		P	630,784.00	630,784.00	0.00	3.53	0.00		
D311499	Auburn	ARRA	F	4,501,502.00	926,760.56	3,574,741.44	2.30	8,221,905.31		
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		
D311553	Aurora	FFATA	F	472,387.00	43,005.71	429,381.29	2.00	858,762.58		
D311563	Aurora	GP11	P	198,122.00	198,122.00	0.00	2.00	0.00		
D311623	Aurora			721,600.00	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		P	32,794.00	32,794.00	0.00	2.50	0.00		
D311091	Bassett		F	138,342.00	100,916.11	37,425.89	2.50	93,564.73		
D311005	Bayard	ARRA	F	112,065.00	47,677.40	64,387.60	2.00	128,775.20		
D311567	Bayard		F	188,676.00	36,289.22	152,386.78	2.00	304,773.56		
D311147	Beatrice		P	826,223.00	826,223.00	0.00	3.18	0.00		
D311006	Beaver Lake	UNPL	F	3,276,647.00	2,000,341.64	1,276,305.36	4.00	5,105,221.44		
D311389	Bee		F	247,311.00	44,414.68	202,896.32	2.00	405,792.64		
D311516	Bellwood	ARRA	F	142,924.00	50,175.20	92,748.80	2.00	185,497.60		
D311073	Benedict		F	455,000.00	108,600.60	346,399.40	3.42	1,184,685.95		
D311142	Bennet	ARRA	P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet		F	612,697.00	230,989.11	381,707.89	2.00	763,415.78		
D311228	Big Springs		P	851,000.00	851,000.00	0.00	2.50	0.00		

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D311007	Blair		P	6,815,700.00	6,815,700.00	0.00	3.03	0.00		
D311530	Blair	GP10	F	2,794,587.00	391,434.40	2,403,152.60	2.25	5,407,093.35		
D311619	Blair	FFATA		1,190,000.00	0.00	243,433.00	2.00	486,866.00		
D311131	Bloomfield		P	203,361.00	203,361.00	0.00	3.00	0.00		
D311491	Bloomfield		P	174,822.00	174,822.00	0.00	2.75	0.00		
D311093	Bloomington		P	151,697.00	151,697.00	0.00	1.00	0.00		
D311094	Blue Hill		P	459,656.00	459,656.00	0.00	3.00	0.00		
D311132	Boyd Cnty RWD 2		P	822,000.00	822,000.00	0.00	3.30	0.00		
D311288	Bradshaw	ARRA	P	175,669.00	175,669.00	0.00	2.00	0.00		
D311081	Brady		F	365,547.00	168,767.85	196,779.15	3.30	649,371.20		
D311404	Bridgeport	ARRA	P	775,068.00	775,068.00	0.00	2.00	0.00		
D311529	Bridgeport		P	833,728.00	833,728.00	0.00	2.14	0.00		
D311405	Bristow		F	80,000.00	70,481.93	9,518.07	2.75	26,174.69		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	658,051.52	1,164,170.48	2.62	3,050,126.66		
D311009	Bruning		P	483,571.00	483,571.00	0.00	3.03	0.00		
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	216,725.63	2,774.37	3.00	8,323.11		
D311561	Brunswick		F	81,658.00	19,827.06	61,830.94	2.00	123,661.88		
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo		F	302,403.00	73,273.52	229,129.48	2.25	515,541.33		
D311456	Carroll	GP10	F	180,380.00	49,386.42	130,993.58	2.00	261,987.16		
D311159	Cedar-Knox (L&C NRD)		P	249,000.00	249,000.00	0.00	3.00	0.00		
D311524	Cedar-Knox (L&C NRD)		P	67,112.00	67,112.00	0.00	2.00	0.00		
D311012	Central City		F	387,572.00	291,133.83	96,438.17	2.75	265,204.97		
D311603	Central City		F	434,007.00	65,972.61	368,034.39	2.00	736,068.78		
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	163,507.72	141,492.28	2.50	353,730.70		
D311509	Clarks		F	516,836.00	169,299.82	347,536.18	2.00	695,072.36		
D311014	Clarkson		F	150,000.00	20,641.95	129,358.05	2.00	258,716.10		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	GP10	F	1,740,472.00	220,447.94	1,520,024.06	2.55	3,876,061.35		

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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		P	754,298.00	754,298.00	0.00	2.29	0.00		
D311017	Culbertson		F	236,862.00	198,992.87	37,869.13	3.00	113,607.39		
D311018	Cuming Cnty RWD 1		F	643,981.00	502,242.19	141,738.81	3.08	436,555.53		
D311457	Cuming Cnty RWD 1		F	323,435.00	175,477.78	147,957.22	2.75	406,882.36		
D311506	Dalton	ARRA	F	197,024.00	74,279.14	122,744.86	2.00	245,489.72		
D311167	Davenport		P	440,000.00	440,000.00	0.00	3.40	0.00		
D311169	David City		F	626,435.00	511,096.24	115,338.76	2.51	289,500.29		
D311569	Daykin		F	450,773.00	78,778.69	371,994.31	2.00	743,988.62		
D311555	Denton		F	522,208.00	139,747.15	382,460.85	2.00	764,921.70		
D311102	DeWitt		P	650,000.00	650,000.00	0.00	2.50	0.00		
D311238	Dodge		F	56,156.00	44,408.73	11,747.27	2.51	29,485.65		
D311240	Dorchester	GP10	F	1,444,796.00	368,550.45	1,076,245.55	2.00	2,152,491.10		
D311021	Duncan		P	465,000.00	465,000.00	0.00	4.30	0.00		
D311609	Edgar	GP	F	218,325.00	21,633.75	196,691.25	2.00	393,382.50		
D311243	Elba		P	702,000.00	702,000.00	0.00	2.00	0.00		
D311571	Elgin			1,114,500.00	14,316.15	340,717.85	2.00	681,435.70		
D311022	Emerson		P	380,010.00	380,010.00	0.00	3.03	0.00		
D311302	Fairbury		P	694,436.00	694,436.00	0.00	2.50	0.00		
D311176	Fairmont		F	183,582.00	84,998.68	98,583.32	3.54	348,984.95		
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00		
D311597	Falls City	FFATA	F	3,634,751.00	374,004.93	3,260,746.07	2.00	6,521,492.14		
D311536	Firth		F	326,301.00	123,223.13	203,077.87	2.00	406,155.74		
D311615	Fort Calhoun		F	450,578.00	27,901.20	422,676.80	2.00	845,353.60		
D311512	Friend	ARRA	F	208,508.00	84,141.42	124,366.58	2.00	248,733.16		
D311535	Fullerton		F	366,000.00	137,984.11	228,015.89	2.00	456,031.78		
D311575	Gariand	FFATA	F	919,150.00	83,076.95	836,073.05	2.00	1,672,146.10		
D311026 20 Yr	Gering	BASE	P	445,110.00	445,110.00	0.00	3.24	0.00		
D311026 30 Yr	Gering	ARRA	P	6,252,963.00	6,252,963.00	0.00	2.30	0.00		
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		P	207,998.00	207,998.00	0.00	3.00	0.00		

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DWSRF LOAN INVESTMENT STATUS REPORT

PROJ #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311104	Grant		P	273,674.00	273,674.00	0.00	3.00	0.00		
D311595	Grant	FFATA	F	2,154,815.00	88,833.56	2,065,981.44	2.00	4,131,962.88		
D311467	Gresham		P	88,119.00	88,119.00	0.00	2.00	0.00		
D311309	Gresham		F	487,613.00	52,447.41	435,165.59	2.00	870,331.18		
D311028	Gurley		F	173,280.00	86,829.81	86,450.19	3.74	323,323.71		
D311566	Haigler		F	117,433.00	20,536.10	96,896.90	2.00	193,793.80		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311552	Hartington	GP11	F	375,924.00	40,455.99	335,468.01	2.00	670,936.02		
D311547	Hay Springs		F	245,667.00	57,060.86	188,606.14	2.50	471,515.35		
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00		
D311521	Hickman		P	2,196,778.00	2,196,778.00	0.00	2.00	0.00		
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00		
D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00		
D311544	Holstein	GP10	F	216,097.00	66,360.14	149,736.86	2.00	299,473.72		
D311602	Holstein		F	104,000.00	13,496.15	90,503.85	2.00	181,007.70		
D311033	Hubbard		P	154,778.00	154,778.00	0.00	3.79	0.00		
D311109	Humboldt		F	1,896,065.00	272,982.75	1,623,082.25	2.30	3,733,089.18		
D311545	Humphrey		P	1,652,865.00	1,652,865.00	0.00	2.25	0.00		
D311067	Jackson		F	109,339.00	102,190.39	7,148.61	3.00	21,445.83		
D311034	Kearney		P	2,139,420.00	2,139,420.00	0.00	3.24	0.00		
D311282	Kearney		P	1,237,634.00	1,237,634.00	0.00	3.48	0.00		
D311398	Kearney		P	8,116,884.00	8,116,884.00	0.00	3.44	0.00		
D311540	Kearney		F	212,927.00	80,583.16	132,343.84	2.00	264,687.68		
D311589	Kearney	FFATA	F	301,029.00	52,760.84	248,268.16	2.00	496,536.32		
D311607	Kearney	FFATA	F	1,500,000.00	30,683.40	1,469,316.60	2.00	2,938,633.20		
D311624	Kearney		F	915,000.00	0.00	0.00	2.00	0.00		
D311576	Kenesaw		F	616,761.00	53,296.77	563,464.23	2.00	1,126,928.46		
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00		
D311184	Kimball		P	750,000.00	750,000.00	0.00	2.52	0.00		
D311504	Laurel	ARRA	F	357,266.00	135,815.81	221,450.19	2.00	442,900.38		
D311564	Leigh		F	257,268.00	178,724.22	78,543.78	2.00	157,087.56		
D311548	Lincoln	UIFFATA	F	14,977,829.00	3,320,929.52	11,656,899.48	2.25	26,228,023.83		
D311570	Lindsay	GP11	F	487,487.00	83,902.12	403,584.88	2.00	807,169.76		

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ANNUAL REPORT

PROJ #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311618	Lindsay			1,320,400.00	0.00	523,196.00	2.00	1,046,392.00		
D311188	Louisville		F	843,275.00	428,038.06	415,236.94	3.50	1,453,329.29		
D311562	Loup City	GP10	F	149,137.00	36,383.91	112,753.09	2.00	225,506.18		
D311317	Lyons		P	695,000.00	695,000.00	0.00	2.50	0.00		
D311220	Madison Cnty SID #3		P	491,843.00	491,843.00	0.00	3.51	0.00		
D311600	Maxwell		F	56,488.00	22,648.74	33,839.26	2.00	67,678.52		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		P	9,922,000.00	9,922,000.00	0.00	2.80	0.00		
D311560	McCook	FFATA	F	1,320,072.00	288,365.37	1,031,706.63	2.00	2,063,413.26		
D311373	Milford	FFATA	F	991,524.00	20,484.40	971,039.60	2.00	1,942,079.20		
D311130	MUD - Omaha		P	755,593.00	755,593.00	0.00	3.00	0.00		
D311498	MUD - Omaha	U/FFATA	F	5,797,062.00	2,047,431.78	3,749,630.22	2.00	7,499,260.44		
D311256	Niobrara		F	175,000.00	128,067.07	46,932.93	3.00	140,798.79		
D311155	Norfolk		P	1,781,318.00	1,781,318.00	0.00	3.00	0.00		
D311515	North Loup	ARRA	P	156,283.00	156,283.00	0.00	2.00	0.00		
D311565	North Loup	FFATA	F	1,303,008.00	127,706.26	1,175,301.74	2.00	2,350,603.48		
D311042	North Platte		P	3,077,844.00	3,077,844.00	0.00	3.36	0.00		
D311322	North Platte		P	6,070,005.00	6,070,005.00	0.00	3.72	0.00		
D311078	Oakland		P	400,000.00	400,000.00	0.00	3.00	0.00		
D311503	Oakland		F	104,883.00	34,435.46	70,447.54	2.00	140,895.08		
D311138	Odell		F	103,293.00	80,547.04	22,745.96	3.03	68,920.26		
D311044	Ogallala	FFATA	F	2,175,295.00	251,410.86	1,923,884.14	2.00	3,847,768.28		
D311616	Ogallala			1,741,347.00	0.00	0.00	2.00	0.00		
D311620	O'Neill			1,963,819.00	0.00	805,329.00	2.00	1,610,658.00		
D311500	Osceola	ARRA	F	270,772.00	102,082.55	168,689.45	2.00	337,378.90		
D311533	Osceola		F	938,713.00	267,701.83	671,011.17	2.25	1,509,775.13		
D311605	Oshkosh	FFATA	F	3,018,750.00	73,743.23	2,894,571.77	2.00	5,789,143.54		
D311585	Osmond	FFATA	F	809,151.00	67,773.70	741,377.30	2.00	1,482,754.60		
D311591	Overton		F	624,713.00	95,940.90	528,772.10	2.00	1,057,544.20		
D311198	Palisade		P	808,000.00	808,000.00	0.00	3.00	0.00		
D311080	Papio-Missouri River NRD		P	338,800.00	338,800.00	0.00	4.00	0.00		
D311614	Papio-Missouri River NRD		F	350,000.00	29,974.12	320,025.88	2.00	640,051.76		
D311627	Papio-Missouri River NRD		F	300,000.00	6,332.77	293,667.23	2.00	587,334.46		

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D311049	Paxton		P	1,131,000.00	1,131,000.00	0.00	3.00	0.00		
D311326	Pender		P	1,028,735.00	1,028,735.00	0.00	2.50	0.00		
D311505	Phillips	ARRA	F	166,643.00	62,825.33	103,817.67	2.00	207,635.34		
D311581	Phillips		F	370,930.00	47,427.96	323,502.04	2.00	647,004.08		
D311543	Pickrell		F	182,702.00	44,982.77	137,719.23	2.00	275,438.46		
D311625	Pierce			550,000.00	0.00	272,573.00	2.00	545,146.00		
D311532	Platte Center		F	505,371.00	151,699.89	353,671.11	2.25	795,760.00		
D311051	Plattsmouth		P	1,491,112.00	1,491,112.00	0.00	3.00	0.00		
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	193,605.85	679,351.15	2.30	1,562,507.65		
D311626	Plattsmouth			804,920.00	0.00	182,578.00	2.00	365,156.00		
D311513	Pleasant Dale	ARRA	F	106,126.00	42,568.68	63,557.32	2.00	127,114.64		
D311596	Pleasanton		F	212,922.00	23,232.19	189,689.81	2.00	379,379.62		
D311525	Ravenna	GP11/FFAT A	P	2,162,228.00	2,162,228.00	0.00	2.00	0.00		
D311438	Republican City		F	1,057,060.00	992,442.55	64,617.45	3.00	193,852.35		
D311594	Riverdale		F	194,385.00	9,717.81	184,667.19	2.00	369,334.38		
D311542	Rogers		F	77,280.00	25,390.78	51,889.22	2.00	103,778.44		
D311606	Sarpy Cnty SID #29		F	572,010.00	292,344.78	279,665.22	2.00	559,330.44		
D311053	Schuyler		P	1,560,451.00	1,560,451.00	0.00	2.00	0.00		
D311334	Scotia		P	467,415.00	467,415.00	0.00	2.57	0.00		
D311573	Scribner			2,928,000.00	126,518.97	2,761,923.03	2.00	5,523,846.06		
D311501	Shelby		F	177,707.00	62,731.01	114,975.99	2.00	229,951.98		
D311537	Shelby		F	1,023,041.00	596,176.17	426,864.83	2.00	853,729.66		
D311514	Shelton		F	895,481.00	236,878.45	658,602.55	2.00	1,317,205.10		
D311056	Sidney		P	1,156,000.00	1,156,000.00	0.00	3.00	0.00		
D311351	Sidney		F	7,975,000.00	6,309,122.67	1,665,877.33	2.52	4,198,010.87		
D311604	Sidney		F	3,241,951.00	268,838.76	2,973,112.24	2.00	5,946,224.48		
D311057	South Sioux City		P	267,732.00	267,732.00	0.00	3.00	0.00		
D311268	South Sioux City		P	1,331,150.00	1,331,150.00	0.00	2.79	0.00		
D311584	South Sioux City	FFATA		3,128,000.00	72,958.20	776,244.80	2.00	1,552,489.60		
D311611	Springfield	FFATA		889,600.00	0.00	0.00	2.00	0.00		
D311559	St. Helena		F	233,025.00	56,529.10	176,495.90	2.00	352,991.80		
D311218	St. Paul	ARA	P	606,000.00	606,000.00	0.00	2.38	0.00		

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D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		F	100,000.00	40,181.37	59,818.63	2.83	169,286.72		
D311058	Stanton		P	344,991.00	344,991.00	0.00	3.00	0.00		
D311059	Stanton Cnty SID #1		F	353,805.00	237,681.57	116,123.43	4.00	464,493.72		
D311146	Stapleton		F	95,953.00	89,674.38	6,278.62	3.01	18,898.65		
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		F	1,497,724.00	1,391,122.51	106,601.49	2.00	213,202.98		
D311502	Sutherland	ARRA	F	1,180,291.00	416,804.45	763,486.55	2.02	1,542,242.83		
D311089	Tecumseh		F	478,982.00	432,156.41	46,825.59	3.00	140,476.77		
D311077	Tekamah		F	1,247,818.00	898,771.72	349,046.28	3.00	1,047,138.84		
D311550	Terrytown	GP10	F	990,525.00	0.00	292,736.00	2.00	585,472.00		
D311590	Tobias		F	251,677.00	22,697.16	228,979.84	2.00	457,959.68		
D311273	Trenton		F	468,685.00	38,790.77	429,894.23	2.00	859,788.46		
D311068	Utica		P	458,699.00	458,699.00	0.00	3.00	0.00		
D311577	Utica		F	2,360,000.00	230,054.30	2,129,945.70	2.00	4,259,891.40		
D311126	Valentine		P	450,000.00	450,000.00	0.00	3.00	0.00		
D311593	Valley		F	562,131.00	97,436.27	464,694.73	2.00	929,389.46		
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	ARRA	F	299,274.00	126,421.30	172,852.70	2.00	345,705.40		
D311275	Wakefield		F	960,000.00	86,702.29	873,297.71	2.00	1,746,595.42		
D311071	Waterloo		P	297,522.00	297,522.00	0.00	3.36	0.00		
D311375	Wauneta		F	262,004.00	66,788.69	195,215.31	2.11	411,904.30		
D311276	Wausa		F	289,083.00	199,967.16	89,115.84	3.00	267,347.52		
D311527	Wausa		F	260,814.00	72,294.80	188,519.20	2.23	420,397.82		
D311582	Waverly	UFFATA	F	2,056,127.00	359,324.66	1,696,802.34	2.00	3,393,604.68		
D311519	Wayne	ARRA	F	762,414.00	269,348.15	493,065.85	2.00	986,131.70		
D311608	Weeping Water	FFATA	F	527,461.00	55,996.58	471,464.42	2.00	942,928.84		
D311558	West Knox RWD	FFATA	F	886,054.00	114,936.57	631,814.43	2.50	1,579,536.08		
D311592	Wisner	FFATA	F	113,073.00	19,825.69	93,247.31	2.00	186,494.62		
D311583	Wood Lake		F	75,820.00	8,157.32	67,662.68	2.00	135,325.36		
D311066	Wood River		P	424,100.00	424,100.00	0.00	3.68	0.00		
D311497	Wymore	ARRA	F	1,489,829.00	561,371.52	928,457.48	2.00	1,856,914.96		

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D311520	York	U/FFATA	F	2,334,605.00	877,892.55	1,456,712.45	2.00	2,913,424.90		
D311617	York	FFATA		3,655,000.00	0.00	0.00	2.00	0.00		
	LOAN TOTALS			237,622,813.00	134,264,854.41	87,668,033.59		189,521,243.90	2.16	2.16

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

**ATTACHMENT 2
DWSRF – BINDING COMMITMENTS**

Community Name	Project #D31	Small System (<10,000)	State Fiscal Year 2018				State Fiscal Year 2019						
			1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR			
Grant Amd #1	1595	X		600,000									
Osmond Amd #1	1585	X		350,000									
Milford	1373	X			1,441,301								
Utica Amd #2	1577	X			150,000								
Blair	1619	X				1,400,000							
York	1617	X				4,300,000							
Lindsay	1618	X					1,650,500						
Ogallala	1616	X					2,176,684						
Papio-Missouri River NRD	1627						300,000						
Plattsmouth	1626	X					876,590						
Aurora	1623	X						902,000					
O'Neill	1620	X						2,618,425					
Pierce	1625	X						687,500					915,000
Kearney	1624												-
Plattsmouth Amd #1	1626	X											160,000
Scribner Amd #1	1573	X											-
Terrytown Amd #1	1550	X											-
(1) BINDING COMMITMENT TOTALS				950,000	1,591,301	5,700,000	5,003,774	4,207,925	-	1,075,000			
(2) CUMULATIVE BINDING COMMITMENTS				281,123,945	283,665,246	289,365,246	294,369,020	298,576,945	298,576,945	299,651,945			
FY BINDING COMMITMENT TOTALS					FY18: 8,241,301					FY19: 10,286,699			
(3) REQUIRED BINDING COMMITMENT*			7,823,660			11,255,441							
(4) CUMULATIVE REQUIRED AMOUNT			200,472,512	200,472,512	200,472,512	200,472,512	211,727,953	211,727,953	211,727,953	211,727,953	211,727,953	211,727,953	211,727,953
(5) BC AS % OF REQ'D BC AMOUNT			140	141	141	144	139	141	141	141	141	142	142
*100% of Capitalization Grant less set-aside plus match, lagged by 1 year from payment													

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, 2017 THROUGH JUNE 30, 2018

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

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

Issued on April 16, 2019

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 (Department) – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. The Drinking Water State Revolving Fund Act is set out at Neb. Rev. Stat. §§ 71-5314 to 71-5327 (Reissue 2018). The Program has been established pursuant to both the Federal Safe Drinking Water Act and State statutes 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 with some forgiveness 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 can have terms of repayment between 5 and 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities may choose to have up to 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% of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2018, the EPA had awarded \$202 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$202 million required the State to contribute approximately \$40 million in matching funds. Since the inception of the Program, the State has appropriated \$2.33 million to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds and the use of Administrative Cash Funds.

The Program is administered by the Department and the Nebraska Department of Health and Human Services – Division of Public Health. The Department's primary activities with regard to the Program include the making of loans for facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department, the Program's Intended Use Plan, loan interest rates, and revenue bonding amounts. 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

KEY OFFICIALS AND DEPARTMENT CONTACT INFORMATION

**Nebraska Department of Environmental Quality –
Drinking Water State Revolving Fund Program
Executive Management**

Name	Title
Jim Macy	Director
Dennis Burling	Deputy Director
Ryan Phillips	Budget Officer III

Nebraska Department of Environmental Quality
1200 N Street, Suite 400
P.O. Box 98922
Lincoln, NE 68509
deq.ne.gov

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

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

1. Financial Statement Errors

During our audit of the Program trial balance and financial statements, we noted the following errors:

- When preparing the trial balance, a new fund set up during the fiscal year was not included. As a result, Cash was understated by \$40,462, Other Operating Revenue was understated by \$72,457, and 10% Public Water Supply System was understated by \$31,995. Additionally, this caused the Department's accrual of payroll costs to be understated. As a result, Due From Federal Government, Accounts Payable & Accrued Liabilities, Capital Contributions – Federal Grants, and 10% Public Water Supply System were all understated by \$3,372.
- When preparing the payroll accrual for fiscal year 2018, the Department incorrectly included life insurance and health insurance. These payments were made in July 2018 for the July 2018 insurance benefit. As a result, Accounts Payable & Accrued Liabilities and Operating Expenses were both overstated by \$2,617.
- When recording the accounts payable accrual for fiscal year 2018, the Department omitted transactions coded to subprograms for capacity development and source water administration. Additionally, the process used to identify payables for fiscal year 2018 resulted in several expenditures incorrectly included as payables and two documents incorrectly excluded. This resulted in the following financial statement errors:
 - Due from Federal Government understated by \$151,515.
 - Accounts Payable & Accrued Liabilities understated by \$144,257.
 - Administrative Costs from Loan Fees overstated by \$7,258.
 - 15% Source Water Assessment Program understated by \$151,515.
 - Capital Contributions – Federal Grants understated by \$151,515.
- Multiple issues were noted with the compensated absence accrual calculation:
 - The Department did not accrue an amount for State retirement or FICA taxes payable on the compensated absences accrual. As a result, Compensated Absences and Operating Expenses were both understated by \$4,085.
 - When splitting the accrual between Administrative Costs from Fees and 15% Source Water Assessment Program, the Department did not correctly calculate the allocation based on actual payroll costs. Due to an error in the spreadsheet used to compile the financial statements, Administrative Costs from Fees was overstated by \$2,215 and 15% Source Water Assessment Program was understated by \$2,215.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

(Continued)

1. **Financial Statement Errors** (Continued)

- When calculating the split between Compensated Absences – Current and Compensated Absences – Non-Current, the Department used 91% for Non-Current but should have used 90%. As a result, Compensated Absences – Non-Current was overstated by \$311 while Compensated Absences – Current was understated by \$311.
- Additionally, the reversing entry for the fiscal year 2017 compensated absences accrual was entered correctly on the trial balance but the split between Administrative Costs from Fees and 15% Source Water Assessment Program was entered incorrectly on the spreadsheet used to compile the financial statements. As a result, Administrative Costs from Fees was understated by \$4,767 and 15% Source Water Assessment Program was overstated by \$4,767.
- The Department correctly identified loan forgiveness to be accrued. However, when recording the entry on the spreadsheet to compile the financial statements, the amount incorrectly excluded one expenditure. As a result, Due to Grant Recipients and Loan Forgiveness were both understated by \$68,927.
- Part of the short-term bond process was identified as having not been completed during testing on the Statewide Comprehensive Annual Financial Report (CAFR). The Department performed the required entries in September 2018 to complete the short-term bond process. However, those entries were not included in the preparation of the financial statements. As a result, Costs of Bond Issuance was overstated, and this created a balancing issue between the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position. Additionally, the entries in September 2018 included an incorrect amount. As a result, Costs of Bond Issuance was originally overstated by \$13,217, and a \$13,217 variance existed between the Statement of Revenues, Expenses, and Changes in Net Position and the Balance Sheet. Once the entries were included, Cost of Bond Issuance was understated by \$51, and the remaining variance was \$51.
- An expenditure for \$541 was incorrectly coded as a debit balance in a revenue account. As a result, Bond Issuance Costs was overstated by \$541, and Administrative Costs from Fees was understated by \$541.

The Auditor of Public Accounts (APA) discussed the identified issues with the Department, and audit adjustments were made to correct errors when proposed by the APA.

A similar finding was noted during the previous two audits.

A good internal control plan and sound accounting practices require procedures to ensure accounting estimates are accurate and complete for proper financial statement presentation. The absence of such procedures increases the risk of materially misstated financial statements.

We recommend the Department strengthen procedures to ensure accounting entries are proper and complete for accurate financial presentation.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION
(Concluded)

1. **Financial Statement Errors** (Concluded)

Department Response: The agency has established a checklist to allow for adequate time to prepare the financials and will produce semi-annual financial statements to cut down on the amount of balancing and accrual work at the end of the fiscal year.

It should be noted this report is critical in nature, containing only our comment and recommendation on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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 balance sheet, the changes in financial position, and cash flows 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 balance sheet of the Nebraska Department of Environmental Quality as of June 30, 2018, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 9 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards* and Regulatory Requirements

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019, on our consideration of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s internal control over financial reporting and compliance.

Regulatory Requirements

In accordance with the *U.S. Office of Management and Budget (OMB) Compliance Supplement*, we have also issued our report dated April 12, 2019, on our consideration of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's internal control over compliance and our tests of its compliance with certain provisions of laws, regulations, and grants.

A handwritten signature in black ink, appearing to read "Mark Avery", with a long horizontal flourish extending to the right.

Lincoln, Nebraska
April 12, 2019

Mark Avery, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Environmental Quality (Department) – 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, 2018. This analysis has been prepared by management of the Department and is intended to be read in conjunction with the Program's financial statements and related footnotes, which 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 the following: 1) Balance Sheet; 2) Statement of Revenues, Expenses, and Changes in Net Position; 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 position. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Program's net position 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 – ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2018, the net position of the Program increased by 4.6% or \$8,625,700. This occurred because the EPA requested that awarded Federal Grant funds be drawn on a first-in, first-out basis in fiscal year 2017 and fiscal year 2018, which resulted in \$7.9 million in draws. If the Program had not obliged, the Program would have given up the capitalization grant.

Changes in Net Investment in Capital Assets

The fiscal year over year comparison represents the accumulated amount invested in the development of the Loan and Grant Tracking System (LGTS). In fiscal year 2017, the Program invested \$29,440 in LGTS. In fiscal year 2018, an additional \$56,303 was invested in LGTS software development.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

BALANCE SHEET

	2018	2017	% Change
Current Assets	\$ 115,713,373	\$ 109,366,113	5.8%
Non-Current Assets	81,207,773	78,725,652	3.2%
Total Assets	196,921,146	188,091,765	4.7%
Current Liabilities	490,634	298,026	64.6%
Non-Current Liabilities	28,273	17,200	64.4%
Total Liabilities	518,907	315,226	64.6%
Net Position:			
Net Investment in Capital Assets	251,330	195,027	28.9%
Unrestricted	196,150,909	187,581,512	4.6%
Total Net Position	\$ 196,402,239	\$ 187,776,539	4.6%

CHANGES IN NET POSITION

	2018	2017	% Change
Loan Fees Administration	\$ 822,515	\$ 814,175	1.0%
Interest on Loans	1,881,994	1,921,295	-2.0%
Other Operating Income	72,457	-	100%
Total Operating Revenues	2,776,966	2,735,470	1.5%
Administration & Set-Asides	2,264,108	2,273,814	-0.4%
Loan Forgiveness	2,059,248	1,976,428	4.2%
Total Operating Expenses	4,323,356	4,250,242	1.7%
Operating Income (Loss)	(1,546,390)	(1,514,772)	-2.1%
Federal Grants	7,916,315	13,399,738	-40.9%
Interest Revenue	2,257,965	2,013,658	12.1%
Bond Expenses	(2,190)	2,117	-203.4%
Total Non-Operating Revenue (Expense)	10,172,090	15,415,513	-34.0%
Change in Net Position	8,625,700	13,900,741	-37.9%
Beginning Net Position July 1	187,776,539	173,875,798	8.0%
Ending Net Position June 30	\$ 196,402,239	\$ 187,776,539	4.6%

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 Program and are expected when draws are based on community requests.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

ECONOMIC OUTLOOK

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 a challenge for communities in funding major capital projects. Declining population bases make it difficult to collect the amount of user fees needed to fund infrastructure requirements.

DEBT ADMINISTRATION

Short-Term Debt

The Program had debt activity during the fiscal year that was short-term in nature resulting from a bond issue. The issue was for \$1,200,000, which was repaid and retired within the same fiscal year.

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

LGTS is a comprehensive software application developed by Northbridge Environmental, which is designed for Nebraska's State Revolving Fund (SRF) managers and staff to track and manage all aspects of their Clean and Drinking Water SRF programs from project loan application to final repayment, as well as to track all capital contributions, set-aside spending, and bond issuance and repayment.

The software was developed to address the data management needs for all of the steps in the SRF management process, including priority list development, facility location and identification, engineering review and milestone tracking, inspections, contacts, contract approvals and change orders, detailed payment request processing, project spending forecasts, encumbrances, funding draws and transfers, disbursements, amortization schedule creation and management, billing, repayment processing, fund deposits, and tracking of repaid funds by their original source. The software also contains a general ledger that each state can customize to match existing accounting systems and create trial balances, financial statements, and related financial schedules.

LGTS has built-in role based security that requires users to log in each time they open the Program. This security system is based on defined roles that each user is playing in the Program. Security roles limit users to performing certain functions.

Historical data is extracted from spreadsheets or other data systems to load LGTS with data, test the validity of the data, and ensure that LGTS can be used effectively. This task is handled by a combination of staff efforts to assemble existing data sources and outside help to ensure that the data is used properly. This process usually yields a dual benefit of having a system with clean data and provides a quality assurance check of the many transactions that have occurred years ago and often by a number of staff members.

Nebraska's State Revolving Fund programs have begun implementation of the LGTS system. During fiscal year 2014, planning of the implementation phases, business rules, and hardware/software installations occurred. During fiscal year 2015 through 2018, the system was used concurrently with existing systems, to create a basis for reliability and consistency. Once dependable, reconciled results will be established, the existing internal system will be discontinued, and LGTS will become the sole system for use within the SRF Program alongside the State Accounting system.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

Contract costs for the purchase and implementation of the LGTS system have been handled through the existing Northbridge contract with the Federal Environmental Protection Agency (EPA) procurement. Therefore, expenditures are withheld as an "in-kind" deduction to the total annual grant, which is awarded to the Program each year. The Federal EPA staff negotiate, monitor, and manage the Northbridge contract for LGTS.

The Department is capitalizing the costs that the EPA reimburses directly to Northbridge, as well as the cost of staff time utilized for implementation.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
 June 30, 2018

	<u>Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash & Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 109,767,062
Due from Federal Government	174,394
Interest Receivable	209,575
Loans Receivable (Note 3)	5,562,342
Total Current Assets	<u>115,713,373</u>
Non-Current Assets:	
Loans Receivable (Note 3)	80,956,443
Capital Assets, Net (Note 4)	251,330
Total Non-Current Assets	<u>81,207,773</u>
Total Assets	<u><u>\$ 196,921,146</u></u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable & Accrued Liabilities	197,827
Due to Grant Recipients (Note 1)	290,010
Compensated Absences (Note 6)	2,797
Total Current Liabilities	<u>490,634</u>
Non-Current Liabilities:	
Compensated Absences (Note 6)	<u>28,273</u>
Total Non-Current Liabilities	<u>28,273</u>
Total Liabilities	<u><u>\$ 518,907</u></u>
 NET POSITION	
Net Investment in Capital Assets	251,330
Unrestricted	<u>196,150,909</u>
Total Net Position	<u>196,402,239</u>
Total Liabilities and Net Position	<u><u>\$ 196,921,146</u></u>

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 POSITION
For the Year Ended June 30, 2018

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	\$ 822,515
Interest on Loans	1,881,994
Other Operating Income	72,457
Total Operating Revenues	<u>\$ 2,776,966</u>
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	448,950
15% Source Water Assessment Program (Note 10)	697,348
2% Technical Assistance to Small Systems (Note 10)	120,640
10% Public Water Supply System (Note 10)	997,170
Loan Forgiveness (Note 10)	2,059,248
Total Operating Expenses	<u>\$ 4,323,356</u>
Operating Loss	(1,546,390)
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	7,860,138
Capital Contributions - Federal Grants - Capital Assets	56,177
Interest on Fund Balance - State Operating Investment Pool (Note 9)	2,257,965
Cost of Bond Issuance	(2,190)
Total Nonoperating Revenue (Expense)	<u>10,172,090</u>
Change in Net Position	<u>8,625,700</u>
TOTAL NET POSITION, BEGINNING OF YEAR AS RESTATED	<u>187,776,539</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 196,402,239</u></u>

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, 2018

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 7,846,328
Payments to Borrowers	(8,189,997)
Payments for Administration	(442,288)
Payments for 15% Source Water Assessment Program	(680,177)
Payments for 2% Technical Assistance to Small Systems	(120,443)
Payments for 10% Public Water Supply System	(1,040,919)
Payments for Loan Forgiveness	(1,835,848)
Receipts From Other Operating Income	72,457
Net Cash Flows from Operating Activities	<u>\$ (4,390,887)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received From the Environmental Protection Agency	7,890,035
Receipts from Bond Issue (Short-Term)	1,200,000
Repayment of Bond (Short-Term)	(1,200,000)
Payment for Bond Issuance Costs (Short-Term)	(2,190)
Net Cash Flows from Non-Capital Financing Activities	<u>7,887,845</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Contributions	56,176
Purchase of Capital Assets	(56,303)
Net Cash Flows from Capital Financing Activities	<u>(127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	2,225,083
Net Cash Flows from Investing Activities	<u>2,225,083</u>
Net Increase in Cash and Cash Equivalents	5,721,914
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>104,045,148</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 109,767,062</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Operating Loss	\$ (1,546,390)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
(Increase)/Decrease in Loans Receivable	(3,048,179)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(31,888)
Increase/(Decrease) in Compensated Absences	12,170
Increase/(Decrease) in Payables to Grant Recipients	223,400
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (4,390,887)</u>

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, 2018

1. **Summary of Significant Accounting Policies**

A. Basis of Presentation

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

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

B. Reporting Entity

The Program is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act of the State of Nebraska. The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Program's management has also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on the Program or whose relationship with the Program is so significant that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department. The Department is also considered financially accountable if an organization is fiscally dependent on, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the 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 State accounting system includes the following Program funds, as identified in the Drinking Water State Revolving Fund Act:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

- Drinking Water Facilities Funds – Federal Funds 48416 and 48418; and Repaid Principle and Bond Funds 68481, 68482, 68483, 68484, and 68485.
- Drinking Water Administration Fund – Cash Fund 28630

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

The activity of these State of Nebraska funds has 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 it and the Department have decided that the determination of revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA the Program will be available in perpetuity, as intended.

This fund classification differs from the classification used in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). The CAFR classifies the Cash funds, Federal funds, and Bond funds as special revenue funds, as they meet the definition of special revenue funds under GASB Statement 54. In that statement, special revenue funds are defined as funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. 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 position.

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.

E. Cash and Cash Equivalents

Cash and Cash Equivalents – Cash and cash equivalents consist of cash in the State Treasury. This includes cash in bank accounts and petty cash, short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments have original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2018, approximates fair value due to their short-term nature. Banks pledge collateral, as required by law to guarantee State funds held in time and demand deposits.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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, which 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.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. 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. After the final disbursement has been made, the amortization schedule identified in the loan agreement is adjusted for the actual amounts disbursed. The interest rates on loans range from 2.0% to 4.0%, and the terms on outstanding loans range from 9.5 to 30 years. Disadvantaged communities may have up to 30 years to repay.

The Program loans are funded from Federal capitalization grants, State match funding, and the Drinking Water State Revolving Fund. The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. Reimbursements to communities are paid 100% from State matching funds until they have been exhausted, and then from Federal capitalization grant funds or Drinking Water State Revolving funds. The Drinking Water State Revolving Fund is financed through principal repayments plus interest earnings becoming available to finance new projects, allowing the funds to "revolve" over time.

The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2018, which is collectible in fiscal year 2019. Loans receivable that were paid in full, prior to their due date, as of August 31, 2018, were included in the current loans receivable balance as opposed to the long-term loans receivable balances.

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. 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

H. **Compensated Absences**

All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than be 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 currently eligible to receive termination payments and other employees 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 240 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 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's 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.

I. **Due to Grant Recipients**

Planning Grants for Preliminary Engineering Reviews are awarded through the Federal Capitalization Grant 15% set-aside funds. The Program awards Planning Grants to communities with populations below 10,000 where the Public Water System is operated by a political subdivision. Available grants are given upon evidence that the eligible Public Water System has entered into a contract with a professional engineer to develop a preliminary engineering report. Planning Grants are intended to provide financial assistance to Public Water Systems for projects seeking funding through the Water Wastewater Advisory Committee common pre-application process. The grant covers 90% of the preliminary engineering report and other eligible costs and will require 10% matching funds from the Public Water System.

Source Water Protection Grants are also awarded through the Federal Capitalization Grant 15% set-aside funds. They are available for proactive projects geared toward protecting Nebraska's drinking water supplies and will address drinking water quality, quantity, security, and/or education. Eligible applicants are political subdivisions that operate a Public Water System serving a population of 10,000 or fewer.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

The Program may choose to provide additional subsidization for municipalities in the form of loan forgiveness. Forgiveness funds will be targeted primarily to the highest ranked eligible projects on the Priority Funding Lists, those that address public health needs, or are needed to address critical capacity development concerns. The loan recipient will not be required to repay the portion of the loan principal that has been designated as loan forgiveness under the terms and conditions of the loan contract. Loan forgiveness is considered a grant for purposes of the financial statements, since repayment is not required.

For Planning Grants, Source Water Protection Grants, and Loan Forgiveness awards, once the municipality submits proof of vendor payment to the Department, it is reimbursed for its project costs by the Program. The Program's financial statements recognized the expense and accrued liability to the Program when the municipality incurred the project expense, which may not be in the same fiscal year as when costs were reimbursed by the Program.

J. 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 operating revenues of the Program include loan fees administration and interest on loans, since making loans is the primary purpose of the Program. The operating expenses of the Program are administration and set-aside expenses and loan forgiveness.

K. Capital Assets

The Program has only one capital asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Department began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and is anticipating this phase to be completed during the fiscal year ended June 30, 2019. The LGTS software is considered an intangible capital asset, and the Department follows the capitalization policy set forth by the State of Nebraska for intangible capital assets, which requires capitalization of such assets when the cost of such asset is in excess of \$100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the developmental phase and the software being put into production, and it will be computed using the straight-line method over the estimated useful life of the asset.

2. **Cash in State Treasury**

The 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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Cash in State Treasury (Concluded)

policies, risks, and types of investments, can be found in the State of Nebraska's CAFR for the fiscal year ended June 30, 2018. All interest revenue is allocated to the General Fund except allocations required by law to be made to other funds. All funds of the Program were designated for investment during fiscal year 2018. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

As of June 30, 2018, the Program had 128 outstanding community loans that totaled \$86,518,785. The outstanding balances of the 10 communities with the largest loan balances, which represent 47.4% of the total loans, were as follows:

Community	Outstanding Balance
Lincoln	\$ 12,303,654
Sidney	5,303,047
MUD – Omaha	4,023,583
Auburn	3,702,009
Falls City	3,414,997
Oshkosh	2,739,019
Alliance	2,738,029
Blair	2,506,907
Utica	2,202,163
Grant	2,072,094
TOTAL	\$ 41,005,502

4. Capital Assets

The Drinking Water SRF capital assets activity for the year ended June 30, 2018, was:

	Beginning Balance As Restated	Additions	Retirements	Ending Balance
Software Development In-Progress				
Loans and Grants Tracking System (LGTS)	\$ 195,027	\$ 56,303	\$ -	\$ 251,330

5. Bonds Payable

The State has entered into a special financing arrangement with Nebraska Investment Finance Authority (NIFA), an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Bonds Payable (Concluded)

The proceeds of short-term revenue bonds are used by the Department to provide the 20% match requirements for the Department's Federal Capitalization Grants. Interest revenue from Program loans was pledged to pay off the bonds. During the fiscal year, the Program utilized \$448,400 of administrative cash funds and issued and retired Series 2017A short-term revenue bonds to meet their match requirements for the 2018 DWSRF grant. Bonds Payable activity for fiscal year 2018 on the short-term bond was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	\$ -	\$ 1,200,000	\$ 1,200,000	\$ -

6. Non-Current Liabilities

Changes in non-current liabilities for the year ended June 30, 2018, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 17,200	\$ 11,073	\$ -	\$ 28,273	\$ 2,797

7. Capital Contributions

Included in the net position is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2018. 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, 2018, and may have been drawn over multiple years.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. **Capital Contributions** (Concluded)

<u>Federal Fiscal Year Available</u>	<u>Grant Amount</u>	<u>Amount Drawn</u>	<u>Balance</u>
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	19,500,000	-
2009	8,146,000	8,146,000	-
2010	13,573,000	13,573,000	-
2011	9,418,000	9,418,000	-
2012	8,695,558	8,695,558	-
2013	8,533,907	8,533,907	-
2014	8,845,000	8,845,000	-
2015	8,681,560	8,681,560	-
2016	8,280,275	8,258,288	21,987
2017	8,312,000	7,139,523	1,172,477
2018	10,914,261	-	10,914,261
TOTAL	\$ 213,104,287	\$ 200,995,562	\$ 12,108,725

Not included in the above grant totals are the amounts set aside as in-kind contributions for the Loans and Grants Tracking System (LGTS) software development. The 2012 grant had \$166,535, the 2015 grant had \$105,440, the 2016 grant had \$31,725, and the 2018 grant had \$121,739 set aside as in-kind amounts for use by the EPA for the development of the new LGTS software.

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2018, was \$56,303. The total amount utilized for LGTS as of June 30, 2018, was \$251,330. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program, which also utilizes the LGTS software.

8. **Loan Fees Administration**

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is not included in the loan principal. It is calculated on a semi-annual basis and billed when the loan principal and interest payments are due. The fee is applied to all loans in accordance with Title 131 Nebraska Administrative Code (NAC) Chapter 8 and the loan agreement.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. **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.

10. **Operating Expenses**

The operating expenses of the Program are classified, for financial reporting purposes, into five categories. There were expenses related to three set-aside activities established under § 1452 of the Safe Drinking Water Act. The three set-aside activities are the following:

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

A Memorandum of Understanding was entered into between the Department and the Nebraska Department of Health and Human Services so that the Department can carry out oversight and related activities of the Program. The Program provides funding to the Nebraska Department of Health and Human Services with the three set-asides noted above.

All set-asides 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 Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these categories:

Administrative Costs from Fees

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is deposited into a separate account and is used for administrative costs of the Program. Revenues from fees can be used to provide the capitalization grant match, loan forgiveness, or planning grants.

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:

- Provide 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;

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. Operating Expenses (Concluded)

- Support the establishment and implementation of wellhead protection programs; and
- 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% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority 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% of the grant funds awarded to do the following:

- Administer the State Public Water System Supervision 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.

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments the State subsidized to communities meeting the definition of “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% of the amount of the capitalization grant for that year.

11. State Employees Retirement Plan (Plan)

The single-employer Plan became effective by statute on January 1, 1964. The Public Employees Retirement Board was created in 1971 to administer the Plan. 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 either to continue participation in the defined contribution option or to 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 are established and can only be amended by the Nebraska Legislature.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees who have attained the age of 18 years may exercise the option to begin participation in the retirement system.

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

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

Defined Contribution Option – Upon attainment of age 55, regardless of service, the retirement allowance will 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 will 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, 2018, employees contributed \$13,576, and the Department contributed \$21,178. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

The State of Nebraska Comprehensive Annual Financial Report (CAFR) also includes pension-related disclosures. The CAFR report 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 Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Department, as part of the primary government for the State, participates in the State's risk management program. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for the following:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

12. Contingencies and Commitments (Concluded)

- A. Motor vehicle liability with vehicular pursuit, which is insured for the first \$1 million of exposure per accident with a self-insured retention of \$300,000 and \$300,000 corridor retention. Motor vehicle liability has excess coverage of \$4 million. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a \$500 deductible for this coverage.
- 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 \$401 million, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10 million for 90 days and after 90 days, if the property has not been reported, the limit decreases to \$5 million. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

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

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



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

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***

Independent Auditor's Report

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2018, and the related notes to the financial statements, which collectively comprise the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's basic financial statements, and have issued our report thereon dated April 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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*.

Additional items

We also noted a certain additional item that we reported to management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program in the Comment Section of this report as Comment Number 1 (Financial Statement Errors).

Nebraska Department of Environmental Quality’s Response to the Finding

The Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s response to the finding identified in our audit is described in the Comment Section of the report. The Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program declined to respond.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lincoln, Nebraska
April 12, 2019

Mark Avery, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

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 OMB COMPLIANCE SUPPLEMENT**

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

Report on Compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program

We have audited the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program based on our audit of the types of compliance requirements referred to above. 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund 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 on compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program. However, our audit does not provide a legal determination of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s compliance.

Opinion on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program

In our opinion, the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’s internal control over compliance with the types of requirements that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program’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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Mark Avery", with a long horizontal flourish extending to the right.

Lincoln, Nebraska
April 12, 2019

Mark Avery, CPA
Assistant Deputy Auditor

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2019 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
Aurora, City of	New Well and Transmission Main Improvements	<p>In March 2016, the City's Engineer completed a design report that evaluated the siting of a new well with transmission main. The PWS at that time consisted of five municipal wells, a 300,000 gallon water storage tower and a distribution system. In October 2013, monitoring of Aurora's most recently drilled Well No. 2005-1 detected Nitrates at 10.2 mg/L, and subsequent quarterly monitoring showed results ranging between 9 mg/L and the drinking water standard of 10 mg/L. Three of the remaining wells are older than the average life of PWS supply well in the State. All of those observations supported Aurora's decision in 2016 to construct a new well for a sustainable water supply. The DWSRF financed that project, with Nitrates measured at 1.54 mg/L in the new supply well. Thus, the City is proposing a new well located approximately 2,500 feet west of Well No. 2016-1.</p> <p>The City will expand their water distribution system in south central Kearney at the Talmadge subdivision to serve a proposed commercial expansion, which is the initial phase to providing a second crossing of the interstate. That crossing will provide a redundant feed to the south side of the highway. Without the phased extension, over 50 residences and numerous existing business are solely depending on a single line for their water supply. This first project phase will ultimately lead to a secondary loop, which will ensure a continuous supply of safe drinking water to the noted existing users. In addition, the City has also requested funding for the Patriot subdivision area in northeast Kearney, to provide for expansion and establish a loop of two dead end water lines.</p>	<p>Since the construction of Well No. 2016-1, two other wells have exceeded the Nitrate drinking water standard, with 10.2 mg/L and 11.4 mg/L monitored at Well Nos. 99-1 and 56-1, respectively, and the community was issued a violation for Nitrates above the drinking water standard in August of 2017.</p>	<p>A benefit of locating the wells north of town in an undeveloped area, will more easily allow for treatment, should Nitrate levels continue to increase regionally.</p>
Kearney, City of	Talmadge and Patriot Water Distribution System Improvements	<p>In May 2017, the Village's Engineer completed a Preliminary Engineering Reports (PER) that evaluated Lindsay's water system needs. The Public Water System consists of three municipal wells, an elevated 50,000 gallon water storage tower, and a distribution system. The existing 50,000 gallon tower was constructed in 1928 and was inspected by Maguire Iron in 2015 and found that the center riser pipe insulation package was beginning to collapse. The Engineer has recommended replacement since the tower is undersized and 90 years old. The proposed replacement tower will be constructed adjacent to the existing tower and several areas or water main replacement were also identified.</p>	<p>N/A</p>	<p>Both project phases will bring new service to existing customers of the City that are either relocating or expanding.</p>
Lindsay, Village of	Water Tower Replacement and Distribution System Improvements	<p>In May 2017, the Village's Engineer completed a Preliminary Engineering Reports (PER) that evaluated Lindsay's water system needs. The Public Water System consists of three municipal wells, an elevated 50,000 gallon water storage tower, and a distribution system. The existing 50,000 gallon tower was constructed in 1928 and was inspected by Maguire Iron in 2015 and found that the center riser pipe insulation package was beginning to collapse. The Engineer has recommended replacement since the tower is undersized and 90 years old. The proposed replacement tower will be constructed adjacent to the existing tower and several areas or water main replacement were also identified.</p>	<p>N/A</p>	<p>The infrastructure investment in a replacing this significantly aged water tower and deteriorating water mains is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.</p>

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2019 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
Ogallala, City of	New Well with Transmission and Distribution System Improvements, Water Tower Repaint	<p>An initial project phase was recently built, constructing a new well with transmission main to serve the south side of the City. This second well will establish a backup source for the south pressure zone, with the transmission main and any associated distribution system improvements being reasonably sized for both future growth and to allow for future replacement of any of the north wells in the southern groundwater production area. This is planned since replacing them to the north of the City is not recommended due to pumping interference issues. The North Tower will be repainted based on recent inspection findings and additional areas are identified for the replacement of distribution mains. In April 2014, the City's Engineer completed a study that evaluated O'Neill's water system needs. The public water system consists of five municipal wells, an elevated 150,000 gallon water storage tower, two 250,000 gallon ground storage tanks, and a distribution system. The existing 150,000 gallon tower was constructed in the 1900s and the ground storage tanks were constructed in 1988. The City proposes to replace all three tanks with a new 750,000 elevated single pedestal elevated tank. Interconnecting piping, SCADA level control work, design, and inspection are included in the project. The tower will be placed directly north of the existing ground storage tanks. The existing tanks will be demolished after the new tank is constructed and put into service.</p>	<p>Now, with an established groundwater supply with low nitrates, a second well site has been approved, with both acceptable water quality and quantity anticipated.</p>	<p>The infrastructure investment in a replacing deteriorating water mains is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.</p>
O'Neill, City of	Water Tower and Ground Storage Tanks Replacement	<p>In April 2014, the City's Engineer completed a study that evaluated O'Neill's water system needs. The public water system consists of five municipal wells, an elevated 150,000 gallon water storage tower, two 250,000 gallon ground storage tanks, and a distribution system. The existing 150,000 gallon tower was constructed in the 1900s and the ground storage tanks were constructed in 1988. The City proposes to replace all three tanks with a new 750,000 elevated single pedestal elevated tank. Interconnecting piping, SCADA level control work, design, and inspection are included in the project. The tower will be placed directly north of the existing ground storage tanks. The existing tanks will be demolished after the new tank is constructed and put into service.</p>	<p>The existing storage facilities are suspected as the source of the City's Total Coliform violations for which the City was issued an Administrative Order from DHHS.</p>	<p>The infrastructure investment in a replacement water tower is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.</p>
Pierce, City of	Replacement Supply Well	<p>Pierce's 350 gpm "Middle Well" screen developed holes resulting in fine sands pumped with the water. Since the "Middle Well" casing diameter is too small to be renewed through relining, it will be abandoned and replaced. The new well proposed by the project is designed to pump 500 gpm.</p>	<p>N/A</p>	<p>The infrastructure investment in a replacement well is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.</p>
Plattsmouth, City of	Highway 75 Water Main Relocations, Filter Media Replacement	<p>The project is needed to replace or relocate water mains at several locations along Highway 75, required due to a conflict with a Nebraska Department of Transportation (NDOT) project for widening the highway. Further, old filtration media at the City's water treatment plant will be replaced.</p>	<p>N/A</p>	<p>The infrastructure investment in replacing water mains is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.</p>

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2019 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
Washington County Rural Water District No. 1	Pump Station Upgrade	<p>The pump station serves to supply water from the Metropolitan Utilities District of Omaha to the Washington County Rural Water District No. 1 (RWD No. 1), which is owned by the NRD. The engineering assessment concluded that upgrades are needed to the controls, the generator needs to be replaced, and third pump added to meet current demands and provide redundancy.</p>	N/A	<p>In recent years, the RWD No. 1 was interconnected with the RWD No. 2, also owned by the NRD, and thus serves as emergency supply to that system, the City of Blair, Lakeland Estates and City of Fort Calhoun. While the new pump is being reasonably sized for growth, this project is the next step in ensuring the sustainability of five public water systems. All are interconnected on either a permanent or an emergency basis throughout Washington County.</p>

SFY 2019 FUNDING LIST PLANNED										SFY 2019 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	RAVENS NEST	\$571,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2020 Funding List					
2	FNSI	ONEILL, CITY OF - SFY2018	\$2,420,000	\$ 605,000	\$ 2,618,425	\$ 654,606	\$ 1,963,819	SFY2019-Q2						
3	FNSI	FAIRBURY, CITY OF	\$7,720,000	\$ 1,544,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2020 Funding List					
4	FNSI	WISNER, CITY OF - SFY2018	\$1,000,000	\$ 250,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2020 Funding List					
5	FNSI	OGALLALA, CITY OF - SFY2018	\$2,176,684	\$ 435,337	\$ 2,176,684	\$ 435,337	\$ 1,741,347	SFY2019-Q1						
6	FNSI	AURORA, CITY OF	\$1,000,000	\$ 192,800	\$ 902,000	\$ 180,400	\$ 721,600	SFY2019-Q2						
7	FNSI	PIERCE, CITY OF - SFY2017	\$358,000	\$ 71,600	\$ 687,500	\$ 137,500	\$ 550,000	SFY2019-Q2						
8	FNSI	LINDSAY, VILLAGE OF	\$1,632,000	\$ 326,400	\$ 1,650,500	\$ 330,100	\$ 1,320,400	SFY2019-Q1						
9	CalEx	PLYMOUTH, VILLAGE OF	\$500,000	\$ 100,000	\$ -	\$ -	\$ -	N/A	Project privately funded					
10	CalEx	YORK, CITY OF	\$4,300,000	\$ 645,000	\$ 4,300,000	\$ 665,000	\$ 3,635,000	SFY2018-Q4	Funded per SFY2018 Bypass Criteria					
11	CalEx	BLAIR, CITY OF	\$1,400,000	\$ 210,000	\$ 1,400,000	\$ 210,000	\$ 1,190,000	SFY2018-Q4	Funded per SFY2018 Bypass Criteria					
12	60	NORTH BEND, CITY OF	\$660,000	\$ 116,754	\$ -	\$ -	\$ -	N/A	Project privately funded					
13	60	METROPOLITAN UTILITIES DISTRICT - SFY 2018	\$6,552,655	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
14	60	CHADRON, CITY OF	\$1,500,000	\$ 225,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2020 Funding List					
15	60	DAWD CITY, CITY OF	\$550,000	\$ 110,000	\$ -	\$ -	\$ -	N/A	Project privately funded					
16	60	PLATTSMOUTH, CITY OF	\$172,908	\$ 25,936	\$ 876,590	\$ 28,988	\$ 847,602	SFY2019-Q1						
17	55	GIBBON, CITY OF	\$5,250,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
18	40	HICKMAN, CITY OF	\$4,050,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2019 Planning List					
19	30	MULLEN, VILLAGE OF	\$440,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
20	30	ORD, CITY OF	\$1,200,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
21	30	GILTNER, VILLAGE OF	\$100,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
22	30	LANGASTER COUNTY RWD NO. 1	\$1,325,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
23	30	LINCOLN, CITY OF - SFY 2018	\$14,977,829	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
24	15	CUMING COUNTY RWD NO. 1	\$212,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded					
25	15	SUNNER, VILLAGE OF	\$20,000	\$ -	\$ -	\$ -	\$ -	N/A	Project delayed					
SFY 2018/2019 PLANNING LIST - BYPASS SYSTEMS										SFY 2019 FUNDED PROGRAM				
NR	15	WASHINGTON CO. RWD NO. 1	\$ 43,000	N/A	\$ 300,000	\$ -	\$ 300,000	SFY2019-Q1	Funded per SFY2018 Bypass Criteria					
NR	30	KEARNEY, CITY OF	\$ 23,117,000	N/A	\$ 915,000	\$ -	\$ 915,000	SFY2018-Q4	Funded per SFY2019 Bypass Criteria					
					\$ 15,826,699	\$ 2,641,931	\$ 13,184,768							