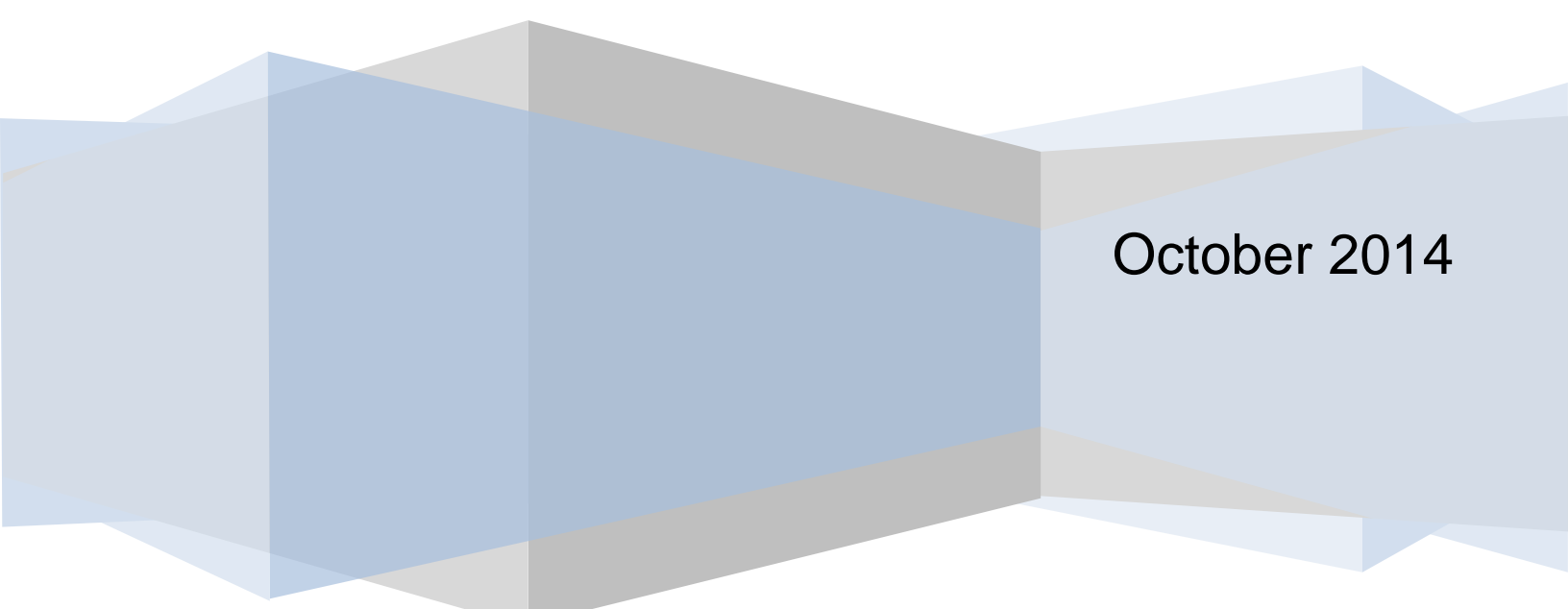


**State of Nebraska
Department of Environmental Quality
Department of Health & Human Services
Division of Public Health**

Drinking Water State Revolving Fund Annual Report

State Fiscal Year 2014



October 2014

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EXECUTIVE SUMMARY

Biennial reports are a requirement of the Environmental Protection Agency (EPA) for the Drinking Water State Revolving Loan Program (DWSRF). Nebraska has provided annual reports to EPA in lieu of the biennial report requirement. The program is also required to make an annual report to the Governor and Legislature. This annual report is for the State Fiscal Year (SFY) 2014 (July 1, 2013 through June 30, 2014). This report is a combined effort of the Nebraska Department of Environmental Quality (NDEQ) 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 2014 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 \$199.4 million plus forgiveness of \$27.2 million to 192 Public Water System (PWS) projects beginning with the program's inception through June 30, 2014. The Federal Fiscal Year (FFY) 2013 EPA capitalization grant was received in July of 2013. That capitalization grant was matched through a short-term revenue bond issue. The FFY 2014 EPA capitalization grant is scheduled to be awarded in July of 2014. The match for that grant will also be provided through a short-term revenue bond planned for issuance in August of 2014.

I. FINANCIAL SCHEDULES SECTION

BACKGROUND

The Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. Neb. Rev. Stat. §§ 71-5314 to 71-5327 created the Drinking Water State Revolving Fund Act. The Federal Safe Drinking Water Act and State statutes established the Drinking Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low interest loans 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 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2014, the EPA had awarded \$148 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$148 million required the State to contribute approximately \$30 million in matching funds. The State provided appropriations to contribute \$2.33 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of long-term revenue bonds of \$5,530,000 in June 2000, \$1,815,000 in March 2001, \$2,000,000 in December 2002, \$1,700,000 in June 2003, \$1,890,000 in September 2004, \$1,920,000 in August 2005, \$1,915,000 in June 2006, \$1,920,000 in September 2007, \$1,965,000 in October 2008, and \$3,110,000 in November 2010. The 2009 Capitalization grant was matched with \$1,629,000 of Administrative Cash Funds. On July 1, 2011, the Nebraska Department of Environmental Quality (Agency) retired the 2001, 2002, 2003, 2005, and 2006 bond issues. After the retirement of outstanding debt on these bonds, \$872,310 remained from the associated reserve funds of the debt. This was used, along with \$1,011,290 of Administrative Cash Funds, to match the 2011 Capitalization grant for a total of \$1,883,600 (\$9,418,000 x 20%). On January 1, 2013, the Agency retired the 2004 and 2007 bond issues. After the retirement of these bonds, \$364,390 remained of reserve funds. These reserve funds, along with \$1,430,610 of Administrative Cash Funds, were used to match the 2012 Capitalization grant for a total of \$1,795,000 (\$8,975,000 x 20%). Of the \$8,975,000 awarded, \$358,500 was withheld by EPA as an in-kind contribution for funds to pay for a federally contracted computer system (LGTS), which would track loans and program requirements. On August 2, 2013, the program issued short-term revenue bonds of \$1,685,000 to provide the match for the 2013 Capitalization grant. This bond will mature in less than one year.

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

A. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2014. 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. The Program's basic financial statements include: 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 OF ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2014, the net position of the Program increased by 7.4%. Operating revenues for the Program decreased by 0.3%, while operating expenses increased by 6.7%.

NET ASSETS

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Current Assets	\$65,698,997	\$59,924,580	9.6%
Noncurrent Assets	89,022,959	85,238,213	4.4%
Total Assets	<u>154,721,956</u>	<u>145,162,793</u>	<u>6.6%</u>
Current Liabilities			
Noncurrent Liabilities	1,451,609	1,367,728	6.1%
Total Liabilities	<u>4,804,257</u>	<u>5,584,055</u>	<u>-14.0%</u>
	6,255,866	6,951,783	-10.0%
Net Assets:			
Restricted	1,019,143	1,019,143	0%
Unrestricted	147,446,947	137,191,867	7.5%
Total Net Assets	<u>\$148,466,090</u>	<u>\$138,211,010</u>	<u>7.4%</u>

CHANGE IN NET ASSETS

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Loan Fees Administration	\$974,912	\$927,572	5.1%
Interest	3,696,711	3,757,905	-1.6%
Fines, Forfeits, and Penalties	-	-	
Total Operating Revenues	<u>4,671,623</u>	<u>4,685,477</u>	<u>-0.3%</u>
Administration & Set-Asides	2,706,088	2,279,006	18.7%
ARRA Loan Forgiveness	-	-	
Non ARRA Loan Forgiveness	1,308,535	1,483,094	-11.8%
Total Operating Expenses	<u>4,014,623</u>	<u>3,762,100</u>	<u>6.7%</u>
Operating Income (Loss)	657,000	923,377	-28.8%
Non-operating Revenues (Expenses)			
Capital Contributions Federal Grants	9,953,279	9,480,740	5.0%
Capital Contributions ARRA Grants	-	346,857	-100.0%
Interest Expenses on Bonds	(355,200)	(319,711)	11.1%
Net Non- operating Revenues (Expense)	<u>9,598,079</u>	<u>9,507,886</u>	<u>0.9%</u>
Change in Net Position	10,255,079	10,431,263	-1.7%
Beginning Net Position July 1	<u>138,211,011</u>	<u>127,779,747</u>	<u>8.2%</u>
Ending Net Assets, June 30	<u>148,466,090</u>	<u>\$138,211,010</u>	<u>7.4%</u>

The most significant changes from the fiscal year ended June 30, 2013, to the fiscal year ended June 30, 2014, were the Administration and Set-Asides and Non-ARRA Loan Forgiveness balances, and Change in Net Position. Administrative and Set-Aside expenses increased from last fiscal year particularly in the 10% Public Water Supply System set-a-side. This is a set-a-side utilized by the Department of Health and Human Services for administration of the State Public Water System Supervision program. Funds are

utilized from various sources for this purpose. One source may be more fully utilized in one fiscal year over another. Non-ARRA Loan Forgiveness also decreased, which was a result of the types and make-up of loans paid out during the year. Forgiveness dollars were awarded per grant requirements, but were not necessarily paid out on an annual basis. Due to several bond redemptions in previous years, as well as early loan pay-offs in previous and current years, the cash balance has increased significantly. This has resulted in a higher Net Position for the program.

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.

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline in recent years; however, net State General Fund revenue collections have been above projections. The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to draw the amount of user fees needed to fund infrastructure requirements. As of the fiscal year ended June 30, 2014, the Program had received \$19,500,000 in ARRA grant funds. Approximately half of those funds were provided as principal forgiveness to communities. The ARRA funding did not require a State match. The ARRA grant has been fully utilized and closed by the end of fiscal year 2014.

DEBT ADMINISTRATION

Long-Term Debt

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

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

LGTS is a comprehensive software application developed by Northbridge Environmental, which is designed for State 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 tracking 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 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. Beginning in fiscal year 2015, the system will be used concurrently with existing systems, to create a basis for reliability and consistency. Once dependable, reconciled results have been established, the existing system will be discontinued, and LGTS will become the sole system for use within the SRF program.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED BALANCE SHEET

June 30, 2014

Enterprise Fund

ASSETS

CURRENT ASSETS

Cash & Cash Equivalents:

Cash in State Treasury (Note 2)	\$ 48,162,899
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Amounts Held by Trustee (Note 2)	10,497,785
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Due from Federal Government	494,996
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Interest Receivable	83,253
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Loan Interest Receivable	-
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Administrative Fees Receivable	-
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Loans Receivable (Note 3)	6,460,064
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TOTAL CURRENT ASSETS	65,698,997
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NON-CURRENT ASSETS

Loans Receivable (Note 3)	89,022,959
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TOTAL NON-CURRENT ASSETS	89,022,959
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TOTAL ASSETS	\$ 154,721,956
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	72,158
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Due to Grant Recipients	494,996
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Compensated Absences	1,449
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Accrued Bond Interest Payable	103,006
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Bonds Payable (Note 4)	780,000
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TOTAL CURRENT LIABILITIES	1,451,609
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NON-CURRENT LIABILITIES

Compensated Absences	19,257
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Bonds Payable (Note 4)	4,785,000
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TOTAL NON-CURRENT LIABILITIES	4,804,257
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TOTAL LIABILITIES	\$ 6,255,866
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NET POSITION

Restricted for Bond Payments	1,019,143
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Unrestricted	147,446,947
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TOTAL NET POSITION	148,466,090
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TOTAL LIABILITIES AND NET POSITION	\$ 154,721,956
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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2014

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 6)	\$ 974,912
Interest on Loans	2,350,463
Interest on Fund Balance - Trustee	482,695
Interest on Fund Balance - State Operating Investment Pool (Note 7)	863,553
Fines Forfeits & Penalties	-
TOTAL OPERATING REVENUES	\$ 4,671,623
OPERATING EXPENSES:	
Administration From Fees (Note 9)	447,321
4% Administrative Costs from Grant	-
15% Source Water Assessment Program (Note 9)	557,330
2% Technical Assistance to Small Systems (Note 9)	108,423
10% Public Water Supply System (Note 9)	1,593,014
Loan Forgiveness (Note 9)	1,308,535
TOTAL OPERATING EXPENSES	\$ 4,014,623
OPERATING INCOME	657,000
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants	9,953,279
Capital Contributions - ARRA Federal Grants	-
Interest Expense - State Match Bonds (Note 9)	(355,200)
Bond Rebate Fee Expense	-
Cost of Bond Issuance	-
NET NONOPERATING REVENUE (EXPENSE)	9,598,079
CHANGE IN NET POSITION	10,255,079
TOTAL NET POSITION, BEGINNING OF YEAR	138,211,011
PRIOR PERIOD ADJUSTMENT	-
NET POSITION, BEGINNING OF YEAR	138,211,011
TOTAL NET POSITION, END OF YEAR	\$ 148,466,090

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 13,717,183
Interest on Investments	1,332,511
Payments to Borrowers	(12,016,791)
Payments to Borrowers ARRA	-
Payments for Administration	(429,872)
15% Source Water Assessment Program	(682,193)
2% Technical Assistance to Small Systems	(126,846)
10% Public Water Supply System	(1,618,936)
Loan Forgiveness	(1,386,844)
Loan Forgiveness ARRA	-
Bond Rebate	-
Bond Issue	-
Cost of Bond Issuance	37,959
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (1,173,829)
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	9,953,279
Funds Repaid to the Environmental Protection Agency	-
ARRA Funds Received From the Environmental Protection Agency	-
Receipts from Bond Issue	1,685,000
Repayment of Bond	(1,685,000)
Bond Principal Payments	(750,000)
Bond Interest Payments	(384,763)
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	8,818,516
Increase in Cash and Cash Equivalents	7,644,687
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	51,015,997
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 58,660,684
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 657,000
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(1,693,572)
(Increase)/Decrease in Interest Receivable	(13,737)
(Increase)/Decrease in Loan Interest Receivable	-
(Increase)/Decrease in Admin Fees Receivable	-
(Increase)/Decrease in Due from Federal Government	(279,420)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(117,682)
Increase/(Decrease) in Compensated Absences	217
Increase/(Decrease) in Grants Payable	273,365
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (1,173,829)

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS) and the Trustee (Wells Fargo Bank) 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 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 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 Nebraska Department of Environment Quality – Drinking Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

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

- Drinking Water Facilities Funds – General Fund 10000; Federal Funds 48416, 48417, and 48418; and Bond Funds 68480, 68481, 68482, 68483, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

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

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

The activity of these State of Nebraska funds 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. An enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2014, 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.

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

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. 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 and for accrued interest during the project period. The interest rates on loans range from 2.0% to 4.3%, and the terms could be 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, 2014, which is collectible in fiscal year 2015. Loans receivable that were paid in full, prior to their due date, as of August 31, 2014, were included in the current loans receivable balance.

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

G. Restricted Net Assets

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

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Compensated Absences

All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than 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 180 days. There is no maximum limit on the accumulation of sick leave

days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55 – or 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% 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.

J. 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 payment to their vendors, they are reimbursed for their 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.

K. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Program's principal ongoing operations. The primary operating revenues of the Program are the loan fees administration and interest on loans, since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and loan forgiveness.

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, 2013. 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 2014. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee. The Nebraska Investment Finance Authority (NIFA) (the “Issuer”) issues revenue bonds, the proceeds of which are used by the Agency to provide the 20% match requirements for the Agency’s Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Master Trust Indenture dated June 1, 2000. At June 30, 2014, the amount held by the Trustee of \$10,497,785 was considered cash and cash equivalents and was stated at fair value, except for the amounts invested in Guaranteed Investment Contracts (GICs), where no readily ascertainable fair value was available. For this investment, the Program manager received an estimate of fair value from the Trustee. The amount held by the Trustee consisted of the following:

	<u>Fair Value</u>
Money Market Account	\$ 1,946,025
Guaranteed Investment Contracts (GICs) in CDC Funding Corporation	<u>8,551,760</u>
TOTAL	<u><u>\$ 10,497,785</u></u>

The amounts shown as cash and as a money market account above are deposits, as defined by GASB. As such, those deposits have custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Program’s deposits may be lost. Of the \$1,946,025 in deposits held by the Trustee, \$250,000 was covered by FDIC insurance, and \$1,696,025 was uninsured and uncollateralized during and at the end of the fiscal year ended June 30, 2014, and, thus, exposed to custodial credit risk. The Program does not have a custodial credit risk policy for deposits.

The Program monies identified in this section are held and invested by the Trustee in its capacity as trustee for the bonds, as specified in the Master Trust Indenture, Section 1.01, dated as of June 1, 2000. That document defines “Investment Obligations” as:

- (a) *direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America;*
- (b) *bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America;*
- (c) *interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) to (b), inclusive, of this definition, or a combination thereof;*
- (d) *money market funds or similar funds which invest exclusively in obligations described in clause (a), (b) or (e) of this definition, or a combination thereof;*
- (e) *bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority or body or instrumentality thereof which constitute obligations described in Section 103(a) of the Code which have a fixed par value and a fixed amount due at maturity and on call dates and are either rated “MIG 1” by Moody’s and*

- rated “SP-1+” by Standard & Poor’s for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor’s and by Moody’s;*
- (f) *any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under the laws of any state, or a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;*
- (g) *investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a state banking association which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United States branch or agency of a foreign bank, which foreign bank consents to in personam jurisdiction and which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds; or*
- (h) *obligations of an insurance company which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds.*

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

- Credit Risk – Credit risk is a risk that an issuer of debt securities or another counter party to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization. The CDC Funding Corporation GIC was rated A-1 by Standard & Poor’s Rating Group.
- Custodial Credit Risk of Investments – Custodial credit risk of investments is the risk that, in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.
- Concentration of Credit Risk – When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 76% of its total investments in the GIC fund.

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

3. Loans Receivable

As of June 30, 2014, the Program had 111 outstanding community loans that totaled \$95,483,023. The outstanding balances of the 10 communities with the largest loan balances, which represent 56.0% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>
Lincoln	\$ 11,825,609
McCook	7,224,194
Gering	6,120,631
North Platte	5,221,224
Metropolitan Utilities District	5,195,475
Auburn	4,182,948
Sidney	4,178,747
Blair	3,917,431
Alliance	3,484,730
Beaver Lake Association	2,131,096
TOTAL	<u><u>\$53,482,085</u></u>

4. Bonds Payable

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues the bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes. The Series 2000A, 2008A, and 2010A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A, 2008A, and 2010A Bonds are revenue bonds. The Series 2000A, 2008A, and 2010A Bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged for the payment of principal, premium, if any, or interest on the Series 2000A, 2008A, and 2010A Bonds. The current bonds payable amount was determined using the amount of bond principal to be retired in fiscal year 2014. Bonds payable for the fiscal year ended June 30, 2014, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	<u>\$ 6,315,000</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 5,565,000</u>	<u>\$780,000</u>

Bonds Payable at June 30, 2014, consisted of the following:

<u>Series</u>	<u>Original Issue</u>	<u>Retirements</u>	<u>2014 Balance</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
2000A	\$5,530,000	\$ 4,065,000	\$1,465,000	4.8-5.7%	July 1, 2015
2008A	1,965,000	580,000	1,385,000	2.75-5.0%	Jan. 1, 2023
2010A	3,110,000	395,000	2,715,000	.9-4.0%	July 1, 2025

The 2000A Series Bonds were issued June 29, 2000, the Series 2008A Bonds were issued October 3, 2008, and the Series 2010A Bonds were issued November 12, 2010. Bonds mature at various intervals through July 2025. On July 1, 2011, the Agency redeemed series 2001A, 2002A, 2003A, 2005A, and 2006A bonds in the principal amount of \$5,725,000 and accrued interest in the amount of \$124,123. On January 1, 2013, the Agency redeemed series 2004A and 2007A bonds in the principal amount of \$2,345,000 and accrued interest in the amount of \$52,444. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 780,000	\$ 220,288	\$ 1,000,288
2016	1,350,000	170,135	1,520,135
2017	340,000	131,805	471,805
2018	355,000	121,093	476,093
2019	365,000	108,859	473,859
Year Ending June 30	Principal	Interest	Total
2020-2023	1,600,000	282,898	1,882,898
2024-2026	775,000	47,100	822,100
TOTAL	\$ 5,565,000	\$ 1,082,178	\$ 6,647,178

Federal arbitrage regulations are applicable to these bonds.

5. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2014, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 20,489	\$ 217	\$ -	\$ 20,706	\$ 1,449

6. 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, 2014. 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, 2014, 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	-
Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
2010	13,573,000	12,369,256	1,203,744
2011	9,418,000	5,972,149	3,445,851
2012	8,695,558	5,398,654	3,296,904
2013	8,421,000	2,858,033	5,562,967
TOTAL	\$167,958,284	\$154,448,818	\$13,509,466

The 2014 grant was awarded on July 2, 2014, after the end of State fiscal year 2014. The award was for \$10,614,000 which consists of \$8,845,000 of federal dollars, and \$1,769,000 of State match dollars. The following is a summary of changes in the total contributed capital:

Contributed Capital July 1, 2013	\$146,824,375
Contributed During the Year:	
Funds from EPA	9,953,279
Funds from ARRA	-
Contributed Capital June 30, 2014	\$156,777,654

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

Nebraska was awarded \$19,500,000 in American Recovery and Reinvestment Act (ARRA) funds for upgrades to public water systems. ARRA provided new, one-time funding, which was combined with existing funds from the Drinking Water State Revolving Fund. ARRA required the State to use at least 50% of the funds provided by this grant to offer additional subsidization in the form of principal forgiveness.

7. 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. This fee 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 Chapter 8 and the loan agreement.

8. Interest on Fund Balance - State Operating Investment Pool

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

9. Operating 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. 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:

- 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 bank 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:

- 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 amount 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.

10. State Employees Retirement Plan (Plan)

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

benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska Legislature.

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

Contribution. Per statute, each member contributes 4.8% of his or her monthly compensation. The 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, 2014, employees contributed \$10,036, and the Agency contributed \$15,656. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement system. This report contains full pension-related disclosures.

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

11. **Contingencies and Commitments.**

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

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

- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31,000,000 for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverage's 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 pended 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 \$199,366,342 in total loan allocations, of which \$73,013,679 was repaid; \$95,543,889 is outstanding, leaving \$30,808,774 still to be disbursed. Details on the Fund portfolio of 192 loans are in Attachment 1. The blended interest rate on the SFY 2014 outstanding loan balance is 2.463%. The result was an overall 4.2 basis point decrease from SFY 2013. The blended rate is likely to decrease again over the next year.

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

This past State Fiscal Year (SFY), the DWSRF entered into nine binding commitments in order to provide financial assistance to PWS projects totaling \$18,314,779. Of that amount, disadvantaged communities received \$2,405,688 in forgiveness funding. Further, the Federal Fiscal Year (FFY) 2011 and 2012 capitalization grants required that a minimum of 30% and 20% of those grants be reserved for additional subsidization (e.g., principal forgiveness), respectively, and that 20% be reserved for the Green Project Reserve (GPR) (e.g., water meters) from the 2011 grant. Over 90% of the FFY 2011 grant requirements have been met, with a planned GPR loan for the City of Hartington, for a project scheduled to start in their 2015/2016 budget year, to close out the grant requirements. While only a minimal amount of forgiveness has been awarded to meet the FFY 2013 additional subsidization requirement to date, numerous major loan closings are scheduled, so there are no problems anticipated with meeting that required grant condition. The FFY 2012 grant conditions have been met.

Attachment 2 provides information showing the loan agreements entered into during SFY 2014 by quarter and shows the cumulative binding commitment amount since the program initiation. The requirement is to allocate 100% of the capitalization grant less set-asides plus required state match within one year of receiving the grant payment. The cumulative requirement is \$168,234,637. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of \$237,287,779 or 141.05% of the required amount.

From the FFY 2013 capitalization grant \$2,385,520 was allocated to the 2% (\$168,420), 10% (\$1,492,100) and 15% (\$725,000) Set-Asides. Further detail is provided below regarding the use of those set-aside allocations.

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

The program is now utilizing the Administration cash fund for most of the salaries and associated expenses of personnel administering the DWSRF program and is not presently exercising this set-aside option for staffing. However, funds were reserved from a prior fiscal year for implementation of the Loan and Grant Tracking Software (LGTS), a comprehensive software application 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. It is anticipated that the LGTS will be online during SFY 2015.

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

- Held a public forum to seek input on the priority ranking system.
- Reviewed and adopted the priority ranking system.

- Presented the priority ranking system to the Advisory Council on Public Water Supply for their approval.
- Conducted Needs Surveys and solicited applications.
- Developed the prioritized project lists.
- Provided NDEQ with information on potential DWSRF loan applicants.
- Developed a Set-Aside Work Plan.
- Prepared DWSRF Intended Use Plan documents.
- Performed technical reviews of preliminary engineering reports for DWSRF projects.
- FNSI & Categorical Exclusion preparation.
- Determined compliance of project construction documents with Nebraska / Federal Safe Drinking Water Act requirements for DWSRF projects.
- Attended DWSRF project and other related meetings, as needed.
- Conducted DWSRF-related field inspections to determine compliance of construction with plans and specifications as approved by NDHHS-DPH.
- Provided NDEQ copies of approval letters for the proposed construction and for placement into service upon completion of the DWSRF projects and final inspection by NDHHS-DPH.
- Provided NDEQ with input on FNSI's and Categorical Exclusions.
- Performed NDHHS-DPH capacity development strategy related reviews.
- Completed special EPA / DWSRF workload activities as requested.
- Participated in the EPA and State program audits.
- Reviewed Operation and Maintenance Manuals for DWSRF funded projects.

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

- Developed program documents and procedures.
- Solicited applications.
- Issued the IUP.
- 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.

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

During SFY 2013 NDHHS-DPH had contracts with one assistance provider:

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.
- Perform financial and managerial assessments of water systems that are applying for SRF funding or that are deemed to be in need of such an assessment.
- Develop corrective action goals which are based on the findings of technical assessments.
- Provide technical, financial and managerial assistance to PWS identified as needing such assistance.
- MAP was committed to conducting an average of 20 contacts each month, with a minimum of 15 on-site and 5 in-office contacts.
- Provide a minimum of 12 instruction sessions per year 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 staff employed in Nebraska's Public Water Supply Supervision (PWSS) Program in accordance with the work plan approved under the EPAs PWSS Program grant. The staff positions include Drinking Water Program Specialists in the Monitoring and Compliance program, Water Supply Specialists in the Field Services Program, and Engineers in the Engineering Services Program. In addition, this set-aside funds the Department's Water Security Coordinator position.

B. Capacity Development

From July 1, 2013 through June 30, 2014, MAP, under the technical, financial and managerial contract, made system visits with an average of twenty-four (24) contacts per month for a total of two hundred eighty three (283) contacts involving two-hundred sixty one (261) PWSs. Included in the contacts are fourteen (14) board/council training sessions that MAP presented.

In SFY 2014, Field Services representatives performed 403 Routine Sanitary Surveys (RSS) and 59 Follow-up surveys. There were 216 Community, 137 Non-Transient, and 50 Transient Non-Community Routine Sanitary Surveys performed. The numbers of deficiencies found are as follows:

Community Systems:

Significant: 488 Minor: 189

A total of 677 deficiencies. Average of 3.1 significant or minor deficiencies per system.

Non-Transient Non-Community Systems(NTNC):

Significant: 124 Minor: 42

A total of 166 deficiencies. Average of 3.3 significant or minor deficiency per system.

Transient Non-Community Systems:

Significant: 151 Minor: 55

A total of 206 deficiencies. Average of 1.5 significant or minor deficiencies per system.

Of the 1,049 significant and minor deficiencies found in SFY 2014 there are only 92 left to still be corrected. The vast majority of these are record keeping related deficiencies. This means that for SFY 2014 Nebraska had 91% deficiency correction rate. There are 37 PWSs that had a RSS in SFY 2014 that still have at least one outstanding deficiency. Ninety percent of the PWSs have

fully complied with all deficiencies that were found. With increased attention being paid to sanitary survey deficiencies, we fully expect the deficiency correction number to be close to 97% in SFY 2015. Because of the Safe Drinking Water Information System (SDWIS) database, the State can effectively compare survey and deficiency data. The normal rotation for sanitary surveys is every three years for Community and Non-Transient Non-Community systems and every 5 years for Transient Non-Community systems. In 2015, NDHHS-DPH will be able to take an easy look back at Community and NTNC systems, compare survey data, and see if the numbers of deficiencies found decreased as planned and whether or not NDHHS-DPH found the same deficiencies. If the numbers of deficiencies decrease, we can be sure that our Capacity Development program is working.

C. Operator Certification

During SFY 2014, NDHHS-DPH held nine water operator training courses applicable to various grade levels. Water operator licenses were issued to 147 individuals in SFY 2014. The number issued per license grade is as follows:

- Grade 1 - 2 licenses
- Grade 2 - 7 licenses
- Grade 3 - 24 licenses
- Grade 4 - 114 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.

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

The State may use up to a total of 10 percent of the Capitalization Grant for the PWS Program Administration set-aside, but must provide a one-to-one state match as required by Section 1452(g)(2) of the SDWA. NDHHS-DPH used \$1,492,000 from the FFY 2013 Capitalization Grant to administer Nebraska's Public Water Supply Program during SFY 2014 into SFY 2015. That amount included \$650,000 of authority that had been previously reserved from past capitalization grants. NDHHS-DPH used a combination of the following to meet the match requirement for the 10 percent set-aside:

- A credit from the general funds provided for the match of FFY 1993 PWS program grant (Total of \$233,688).
- A credit from the additional general funds (i.e. overmatch) provided by the State for the PWS program grant in FFY 1993 (Total of \$272,339).
- Current year general funds allocated to the PWS program, not used for match to the PWS program grant (Total of \$197,833 in general funds provided during FFY 2013 not used for match); and
- Cash contributions in the form of income from fees received to perform analyses at the State laboratory for PWSs (Fee amount received during SFY 2014 was \$1,462,796), for review of plans (\$201,299 received in SFY 2014), and for operator licenses (\$339,680 received in SFY 2014).

The total of State funding available for one-to-one match to the \$1,492,100 was \$2,707,635.

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

A. Land Acquisition For Source Water Protection

Funds potentially available for land acquisition were not used, being primarily used for drinking water facility loans. The present program intent is not to reserve funds for land acquisition under future grants.

B. Source Water Delineation and Assessment

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

Source Water and Wellhead Protection staff were funded with 319 Clean Water Act Non-Point Source funds and 15% DWSRF Set-Aside money. NDEQ staff continues to work with public water suppliers to develop protection actions for their drinking water supplies. Staff have updated Wellhead Protection Area maps (or adopted the acceptable work of others) and Watershed Delineation Area maps for Nebraska public water supplies. As of June 30, 2014, 103 PWSs have completed state-approved wellhead protection plans.

Beginning with FY 2003, approximately \$200,000 of the 15% DWSRF set-aside had been used annually for Source Water Protection granted projects. This amount was reduced to \$100,000 beginning in FFY 2007. The allocation from the FFY 2013 Capitalization Grant was distributed to six different entities for project implementation to enhance source water quality, quantity, and education. These recipients included the communities of Crete, Meadow Grove, Osmond, Prosser, and Wymore, and the Lewis and Clark NRD (the Cedar-Knox Rural Water System). The total amount available in SFY 2014 was \$120,000, which included an additional \$20,000 from previous projects where final costs came in under budget, and was all obligated to the aforementioned projects. To date, Source Water Protection funds have been distributed to 62 individual entities to complete 79 separate Source Water Protection projects throughout the state.

C. Planning Grants

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

Planning grants may be provided to 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. Ten grant awards were made in SFY 2014 totaling \$160,000, all to high priority ranked communities, to address compliance with drinking water standards. Since its inception in SFY 2002, the DWSRF has awarded planning grants to 111 communities for a total of \$1,380,320.

D. Security Grants

Letters were sent to all community PWSs with populations less than 10,000 notifying them of the grant program in SFY 2014. 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, which resulted in the following types of projects being installed:

- Security Alarms 4
- Fencing 5
- Security Cameras 4
- Generators 7
- Buildings 1
- Maps 8

Number of Grants Awarded 29

E. Capacity Development

NDHHS-DPH continues to use this set-aside to fund one FTE staff. That position administers the Public Water System Capacity Development Program for NDHHS-DPH. The position includes oversight and on-going implementation of the State's Capacity Development strategy, writing and administering contracts which utilize funding from the DWSRF 2% set-aside monies, and writing and submitting all necessary reports and other documents that are required as part of this program. The program coordinator held 21 presentations involving asset management, capacity development, and drought mitigation for PWSs, and a regulation update presentation was made at one conference.

7. Match Discussion

The ratio for match purposes is theoretically 1/6 state, 5/6 federal, for an 83.33% ACH draw as a percentage of total disbursement. However, the use of set-asides makes the actual percentage fluctuate. Since set-asides are not matched directly the draws for set-asides must be matched by a later disbursement on a loan project. As of June 30, 2014 the ACH draw was \$131,038,178 and the match disbursement was \$29,835,936 for an ACH draw as a percentage of grant plus match disbursements ratio of 81.45%. This ratio indicates that the state has overmatched on this requirement.

For SFY 2014, 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
- DWNIMS, PBR, and 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 18 PWS projects during SFY 2014. It was determined that no Environmental Impact Statements (EIS) were necessary; instead Environmental Assessments (EA) were prepared and Finding of No Significant Impact Statements (FNSI) were issued for 12 projects: Garland, Giltner, Kearney, Laurel, Ogallala, Osmond, Overton, Phillips, South Sioux City, Tobias, Utica, and Waverly. Categorical Exclusion(s) (CE) were issued for 6 projects: Decatur, Hartington, Kearney, Oxford, Wisner, and Wood Lake.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2014 Intended Use Plan. The short-term goals support the implementation of the program. The DWSRF has made significant progress on most of its short-term goals. The DWSRF program continues to work with the systems identified by providing both technical and financial project support. The goals are listed and discussed as follows:

1. *Continue to attract customers to the program with short-term inducements and low interest rates.*

This goal was accomplished across the board for all projects funded in SFY 2014. With changes in market rates, program rates for all loans were closed at 2% during the fiscal year.

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

There were nine loans closed during SFY 2014. Five of the loans were for high priority status projects. Three of the loans addressed enforcement actions issued by NDHHS-DPH: Haigler – Arsenic, Kearney – Long Term 2 – Surface Water Treatment Rule, and Lindsay - Nitrates.

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

All systems that closed loans in SFY 2014 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.

See responses to number 3 above for Haigler, Kearney, Lindsay, and Ogallala. Administrative Orders have set deadlines agreed to between the City and the NDHHS-DPH.

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

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

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

See response to number 3 above for Haigler, Kearney, Lindsay, and Ogallala.

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 2014 with the DWSRF, except for Kearney, helped the program easily meet this requirement.

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

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

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY 2014 Intended Use Plan. The goals are listed and discussed as follows:

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

In establishing the financial structure of the program we have tried to provide the lowest reasonable interest rate loans for projects that address human health problems. Reflective of recent economic concerns rates were maintained at 2% across the board this fiscal year. 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. Match disbursements have been completed with 100% of the state match drawn first, prior to any request for associated capitalization grant loan funds.

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

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

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

In SFY 2014, five of the nine loan agreements were made to either address or proactively mitigate future public health issues. In addition, through the Water Wastewater Advisory Committee (WWAC) monthly meetings, eligible projects are discussed by the participating State and Federal agencies and evaluated for the health-related issues being addressed, project alternatives, cost-effectiveness, and long-term solution for the water system. See Section C below for additional details.

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

This is accomplished through the program's engineering report requirements in Title 131 and the WWAC process described in the response to number 3 above. Further, discussions among the WWAC members were initiated and the Interagency PER Template developed by the Federal agency leads of Nebraska's water infrastructure funding programs was adopted.

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

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

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

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

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

See response to number 1 above.

8. Insuring the fund's purchasing power in perpetuity requires balancing the need for fund growth at the rate of inflation experienced in the construction industry, versus the desire to provide loans at low interest rates. 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. Please note that this was originally shown as a Short-Term goal in the IUP, but has been upgraded to a Long-Term goal.

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

From its inception, Nebraska's DWSRF program has provided low-interest loans and some forgiveness each year of the program. With the continued mandatory subsidization requirement of not less than 20% up to 30% with the FFY 2013 capitalization grant, the ability for the program to provide affordable financing continued to increase this past fiscal year. In addition, other agencies' participation in the WWAC include the Nebraska Department of Economic Development, which administers the Community Development Block Grant program, and the USDA-Rural Development, which administers the Business and Community Programs, providing loans and grants to non-profit organizations in rural areas. These programs have provided state and/or federal financial assistance to make drinking water infrastructure projects affordable in the State.

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

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

C. Funded Program

The Annual Report reflects the results and changes from the SFY 2014 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 20, 2013. Provided after Section D is a brief synopsis of the SFY 2014 Funding and Planning List communities that closed loans during the fiscal year. More detailed project information for the loans closed in SFY 2014 is provided in Attachment 4.

NDHHS-DPH works with all members of the WWAC to identify projects that are potentially ready to be funded and moving forward during the SFY. This approach was helpful for those systems that indicated that they were anticipating moving forward with a project during the SFY. Below is a summary of the known status for each of the high priority projects for the systems that made contact with the NDHHS-DPH DWSRF Coordinator during the past fiscal year, starting first with the SFY 2014 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Bayard, City of – Choose to proceed with their project, the majority of which will be funded through the USDA-RD program. The water meter replacement phase will likely be funded by the DWSRF in SFY 2015.

Cambell, Village of –The project, if constructed, will be funded through the USDA-RD program.

Cedar-Knox Rural Water District – If adequate interest is established for their project, it will proceed in SFY 2015, which then will be funded by the DWSRF.

Garland, Village of – Will construct their water system upgrade project in SFY 2015, funded through the DWSRF.

Kenesaw, Village of – Will likely fund their new water meter project through the DWSRF in SFY 2015.

Lodgepole, Village of – Their water meter replacement project was put on hold, as they are developing a Preliminary Engineering Report to address a recently issued Arsenic Administrative Order.

Mullen, Village of – Choose not to proceed with their project, will privately fund limited water main improvements for their system.

Saunders Co. SID No. 6 - Riverview – Constructed a replacement well that they privately funded.

Sprague, Village of – Choose to privately fund their blending project.

West Knox Rural Water District – Completing a Feasibility Study under the Bureau of Reclamation's Rural Water Supply program. 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.

Wood Lake, Village of – Is planning to replace the roof on its' water tower, which will be funded by the DWSRF in SFY 2015.

Planning List Projects

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

Ansley, Village of – Has completed the installation of replacement water meters through funding provided by the CWSRF.

Beemer, City of – Has constructed a blending water main project, which they privately funded, to address Selenium and Uranium issues.

Benedict, Village of – Has received a planning grant award through the DWSRF to address their Nitrate issues.

Benkelman, City of – The City is planning to construct a replacement wellfield to address their Ground Under the Influence determination, which will likely be funded through the USDA-RD program.

Brainard, Village of – Has received a regional planning grant through the DWSRF to address a Selenium Administrative Order.

Carroll, Village of – Will construct a new water tower and mains through funding provided by the USDA-RD program.

Chappell, City of – Is working with the Village of Lodgepole on developing a joint wellfield to address its' Arsenic issues.

Dwight, Village of – May apply for a planning grant through the DWSRF in SFY 2015 to assess their water system's needs.

Falls City, City of – Has begun a project to upgrade its' water treatment plant and construct a collector well, which will likely be funded through the DWSRF in SFY 2015.

Fullerton City of – Will be awarded a DWSRF planning grant in SFY 2015 to address their recently issued Selenium A.O.

Giltner, Village of – Completed a PER, is developing a final project scope that will likely be funded through the DWSRF in SFY 2014.

Harbine, Village of – Is planning to construct a replacement well to address water level impacts due to an ongoing drought, which may be funded by the DWSRF.

Harrison, Village of – Is planning to construct replacement water wells to address elevated Nitrate levels, which will be funded by the USDA-RD and CDBG programs.

Kearney, City of – Is planning to construct several water main replacement projects, which will be funded through the DWSRF in SFY 2015.

Lincoln, City of – Has constructed a horizontal collector well to address a treatment plant supply ozone unit efficiency issue, which they chose to privately fund.

Madison County Rural Water District – May apply for a planning grant to develop a test hole program for development of their proposed water system.

Oshkosh, City of – Has developed a new wellfield project to address elevated Arsenic and Uranium levels; the project will be submitted for a review through the WWAC.

Overton, Village of – Has developed a water main replacement project, which will likely be funded through the DWSRF in SFY 2015.

Phillips, Village of – Is developing a new well project to address elevated Nitrate and Uranium levels, which will likely be funded through the DWSRF in SFY 2015.

Pleasanton, Village of – Has developed a replacement well project to address elevated Radium levels, which will likely be funded through the DWSRF in SFY 2015.

Riverton, Village of – The Village has developed a project to interconnect with a local RWD, which is under review through the WWAC.

South Sioux City, City of – Has developed a new water tower, replacement well, and main project, which will likely be funded through the DWSRF in SFY 2015.

Terrytown, City of – Has completed a preliminary engineering study to evaluate Arsenic concerns, which is under review through the WWAC. The City has signed a loan with the DWSRF to install water meters under the GPR.

Tobias, Village of – Has developed plans for a replacement water well, which will likely be funded by the DWSRF in SFY 2015.

Wisner, City of – Has develop plans for a replacement water main project, which will likely be funded by the DWSRF in SFY 2015.

Albion, Brunswick, Humboldt, Shelby and Stromsburg have completed their projects through DWSRF funding, and have been brought back into compliance with their enforcement actions previously issued by NDHHS-DPH.

The communities of Creston, Endicott, Homer, Loomis, Naponee, Oconto, and Shelton submitted preliminary engineering reports to NDHHS-DPH, for a review for potential funding assistance through the WWAC.

D. Program Changes Under Consideration

Changes under consideration include limiting forgiveness assistance to just those communities that are addressing public health needs as a part of their projects and providing forgiveness and/or grant assistance for rehabilitation of wells through innovative methods of sealing the annular space. The former is due to the anticipated decrease in capitalization grant funding projected for FFY 2015 and thereafter. The latter may occur in SFY 16 following interpretation of the on-going study by DHHS's Annular Seal Task Force, which may result in low-cost compliance for water well supplied public water systems.

**ATTACHMENT 1
LOAN AND INVESTMENT STATUS**

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		
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			282,000.00	19,600.00	218,754.00	2.00	437,508.00		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	22,279.93	128,598.07	2.00	257,196.14		
D311496	Alliance	ARRA	F	3,513,951.00	523,464.52	2,990,486.48	2.00	5,980,972.96		
D311511	Alliance		F	595,224.00	100,980.91	494,243.09	2.00	988,486.18		
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		F	1,592,435.00	1,040,574.14	551,860.86	3.47	1,914,957.18		
D311219	Auburn		P	630,784.00	630,784.00	0.00	3.53	0.00		
D311499	Auburn	ARRA	F	4,501,502.00	318,554.22	4,182,947.78	2.30	9,620,779.89		
D311004	Aurora		P	300,000.00	300,000.00	0.00	2.80	0.00		
D311495	Aurora		P	226,733.00	226,733.00	0.00	3.00	0.00		
D311563	Aurora	GP11		260,000.00	5,500.00	188,414.00	2.00	376,828.00		
D311226	Bancroft		P	591,000.00	591,000.00	0.00	2.50	0.00		
D311227	Barneston		F	32,794.00	30,927.42	1,866.58	2.50	4,666.45		
D311091	Bassett		F	138,342.00	63,956.37	74,385.63	2.50	185,964.08		
D311005	Bayard	ARRA	F	112,065.00	21,435.80	90,629.20	2.00	181,258.40		
D311147	Beatrice		P	826,223.00	826,223.00	0.00	3.18	0.00		
D311006	Beaver Lake Association	UNPL	F	3,276,647.00	1,145,551.29	2,131,095.71	4.00	8,524,382.84		
D311389	Bee			247,311.00	0.00	92,704.00	2.00	185,408.00		
D311516	Bellwood	ARRA	F	142,924.00	17,607.99	125,316.01	2.00	250,632.02		
D311073	Benedict		F	455,000.00	33,611.79	421,388.21	3.42	1,441,147.68		
D311142	Bennet		P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet	ARRA	F	612,697.00	90,406.26	522,290.74	2.00	1,044,581.48		
D311228	Big Springs		P	636,000.00	636,000.00	0.00	2.50	0.00		
D311228	Big Springs Amd#1		P	215,000.00	215,000.00	0.00	3.00	0.00		
D311007	Blair		F	6,815,700.00	5,659,238.03	1,156,461.97	3.03	3,504,079.77		
D311530	Blair	GP10	F	2,794,587.00	33,618.30	2,760,968.70	2.25	6,212,179.58		
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	2.50	0.00		
D311094	Blue Hill		P	459,656.00	459,656.00	0.00	3.00	0.00		
D311132	Boyd Co. RWD No. 2		P	822,000.00	822,000.00	0.00	3.30	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311288	Bradshaw	ARRA	P	175,669.00	175,669.00	0.00	2.00	0.00		
D311081	Brady		F	365,547.00	110,002.70	255,544.30	3.30	843,296.19		
D311404	Bridgeport	ARRA	F	775,068.00	114,366.84	660,701.16	2.00	1,321,402.32		
D311529	Bridgeport		F	833,728.00	67,558.86	766,169.14	2.14	1,639,601.96		
D311405	Bristow		F	80,000.00	41,429.45	38,570.55	2.75	106,069.01		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	250,941.60	1,571,280.40	2.62	4,116,754.65		
D311009	Bruning		F	483,571.00	357,574.71	125,996.29	3.03	381,768.76		
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	208,323.71	11,176.29	3.00	33,528.87		
D311561	Brunswick			141,600.00	1,600.00	80,058.00	2.00	160,116.00		
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo			536,560.00	10,000.00	277,446.00	2.25	624,253.50		
D311456	Carroll	GP10		184,000.00	8,500.00	158,217.00	2.00	316,434.00		
D311159	Cedar-Knox (Lewis & Clark)		F	249,000.00	124,909.01	124,090.99	3.00	372,272.97		
D311524	Cedar-Knox (Lewis & Clark)		F	67,112.00	12,375.75	54,736.25	2.00	109,472.50		
D311012	Central City		F	387,572.00	146,966.50	240,605.50	2.75	661,665.13		
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	88,338.23	216,661.77	2.50	541,654.43		
D311509	Clarks		F	516,836.00	52,756.47	464,079.53	2.00	928,159.06		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	GP10		1,670,358.00	17,500.00	1,534,807.00	2.55	3,913,757.85		
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		F	754,298.00	15,451.66	738,846.34	2.29	1,691,958.12		
D311017	Culbertson		F	236,862.00	131,213.75	105,648.25	3.00	316,944.75		
D311018	Cuming Co. RWD No. 1		F	643,981.00	322,779.57	321,201.43	3.08	989,300.40		
D311457	Cuming Co. RWD No. 1		F	323,435.00	46,407.15	277,027.85	2.75	761,826.59		
D311506	Dalton	ARRA	F	197,024.00	29,072.31	167,951.69	2.00	335,903.38		
D311167	Davenport		P	440,000.00	440,000.00	0.00	3.40	0.00		
D311169	David City		F	626,435.00	300,915.53	325,519.47	2.51	817,053.87		
D311569	Daykin			520,000.00	0.00	75,848.00	2.00	151,696.00		
D311555	Denton		F	522,208.00	22,192.43	500,015.57	2.00	1,000,031.14		
D311102	DeWitt		P	650,000.00	650,000.00	0.00	2.50	0.00		
D311238	Dodge		F	56,156.00	26,681.90	29,474.10	2.51	73,979.99		
D311240	Dorchester	GP10		1,451,914.00	63,000.00	1,025,478.00	2.00	2,050,956.00		
D311021	Duncan		P	465,000.00	465,000.00	0.00	4.30	0.00		
D311243	Elba		P	341,250.00	341,250.00	0.00	2.50	0.00		
D311243	Elba Amd#1		P	360,750.00	360,750.00	0.00	3.00	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311571	Elgin			1,166,070.00	0.00	0.00	2.00	0.00		
D311022	Emerson		P	380,010.00	380,010.00	0.00	3.03	0.00		
D311302	Fairbury		F	694,436.00	249,301.33	445,134.67	2.50	1,112,836.68		
D311176	Fairmont		F	183,582.00	42,280.99	141,301.01	3.54	500,205.58		
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00		
D311536	Firth		F	326,301.00	48,429.64	277,871.36	2.00	555,742.72		
D311512	Friend	ARRA	F	208,508.00	36,007.54	172,500.46	2.00	345,000.92		
D311535	Fullerton		F	366,000.00	54,005.92	311,994.08	2.00	623,988.16		
D311026	Gering	BASE	F	445,110.00	46,801.91	398,308.09	3.24	1,290,518.21		
D311026	Gering AMD#1	ARRA	F	6,252,963.00	530,639.94	5,722,323.06	2.30	13,161,343.04		
D311245	Giltner		P	795,462.00	795,462.00	0.00	3.26	0.00		
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00		
D311214	Grafton		F	207,998.00	104,634.52	103,363.48	3.00	310,090.44		
D311104	Grant		F	273,674.00	219,113.51	54,560.49	3.00	163,681.47		
D311467	Gresham		P	88,119.00	88,119.00	0.00	2.00	0.00		
D311028	Gurley		F	173,280.00	57,774.70	115,505.30	3.74	431,989.82		
D311566	Haigler			168,000.00	0.00	39,675.00	2.00	79,350.00		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311547	Hay Springs			305,000.00	4,200.00	238,427.00	2.50	596,067.50		
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00		
D311521	Hickman		F	2,196,778.00	136,163.62	2,060,614.38	2.00	4,121,228.76		
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		
D311311	Holdrege	GP11		235,928.00	0.00	0.00	2.00	0.00		
D311544	Holstein	GP10	F	216,097.00	18,208.11	197,888.89	2.00	395,777.78		
D311033	Hubbard		F	154,778.00	43,866.66	110,911.34	3.79	420,353.98		
D311109	Humboldt			2,056,400.00	39,500.00	1,748,497.00	2.30	4,021,543.10		
D311545	Humphrey			1,830,594.00	63,000.00	1,589,865.00	2.25	3,577,196.25		
D311067	Jackson		F	109,339.00	69,473.29	39,865.71	3.00	119,597.13		
D311034	Kearney		F	2,139,420.00	1,122,852.15	1,016,567.85	3.24	3,293,679.83		
D311282	Kearney		F	1,237,634.00	544,896.39	692,737.61	3.48	2,410,726.88		
D311398	Kearney		P	8,116,884.00	8,116,884.00	0.00	3.44	0.00		
D311540	Kearney		F	212,927.00	31,840.97	181,086.03	2.00	362,172.06		
D311579	Kearney	FFATA		2,000,000.00	0.00	0.00	2.00	0.00		
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00		
D311184	Kimball		F	750,000.00	255,509.28	494,490.72	2.52	1,246,116.61		
D311504	Laurel	ARRA	F	357,266.00	50,108.68	307,157.32	2.00	614,314.64		
D311564	Leigh			440,000.00	0.00	257,268.00	2.00	514,536.00		
D311548	Lincoln	U/FFATA		15,000,000.00	238,000.00	11,825,609.00	2.25	26,607,620.25		
D311570	Lindsay	GP11		430,348.00	0.00	299,067.00	2.00	598,134.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311188	Louisville		F	843,275.00	221,319.40	621,955.60	3.50	2,176,844.60		
D311562	Loup City	GP10	F	149,137.00	3,145.54	145,991.46	2.00	291,982.92		
D311317	Lyons		P	695,000.00	695,000.00	0.00	2.50	0.00		
D311220	Madison Co. SID #3		P	491,843.00	491,843.00	0.00	3.51	0.00		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		F	9,922,000.00	2,697,806.19	7,224,193.81	2.80	20,227,742.67		
D311560	McCook	FFATA		1,669,448.00	0.00	0.00	2.00	0.00		
D311130	Metropolitan Utilities Distr.		F	755,593.00	626,586.26	129,006.74	3.00	387,020.22		
D311498	Metropolitan Utilities Distr.	U/ARRA	F	5,797,062.00	730,593.71	5,066,468.29	2.00	10,132,936.58		
D311256	Niobrara		F	175,000.00	74,602.48	100,397.52	3.00	301,192.56		
D311155	Norfolk		P	1,781,318.00	1,781,318.00	0.00	3.00	0.00		
D311515	North Loup	ARRA	F	156,283.00	23,052.53	133,230.47	2.00	266,460.94		
D311565	North Loup	FFATA		1,202,305.00	0.00	168,038.00	2.00	336,076.00		
D311042	North Platte		F	3,077,844.00	1,602,559.05	1,475,284.95	3.36	4,956,957.43		
D311322	North Platte		F	6,070,005.00	2,324,066.14	3,745,938.86	3.72	13,934,892.56		
D311078	Oakland		P	400,000.00	400,000.00	0.00	3.00	0.00		
D311503	Oakland		F	104,883.00	10,810.94	94,072.06	2.00	188,144.12		
D311138	Odell		F	103,293.00	51,937.77	51,355.23	3.03	155,606.35		
D311044	Ogallala	FFATA		2,175,295.00	0.00	0.00	2.00	0.00		
D311500	Oscelola	ARRA	F	270,772.00	39,954.34	230,817.66	2.00	461,635.32		
D311533	Oscelola		F	938,713.00	57,324.28	881,388.72	2.25	1,983,124.62		
D311198	Palisade		P	808,000.00	808,000.00	0.00	3.00	0.00		
D311080	Papio-Mo River NRD		P	338,800.00	338,800.00	0.00	4.00	0.00		
D311049	Paxton		P	1,131,000.00	1,131,000.00	0.00	3.00	0.00		
D311326	Pender		F	1,028,735.00	366,601.43	662,133.57	2.50	1,655,333.93		
D311505	Phillips	ARRA	F	166,643.00	24,589.36	142,053.64	2.00	284,107.28		
D311543	Pickrell			182,702.00	4,000.00	109,475.00	2.00	218,950.00		
D311532	Platte Center		F	505,371.00	40,868.34	464,502.66	2.25	1,045,130.99		
D311051	Plattsmouth		F	1,491,112.00	1,006,063.09	485,048.91	3.00	1,455,146.73		
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	78,021.12	794,935.88	2.30	1,828,352.52		
D311513	Pleasant Dale	ARRA	F	106,126.00	17,970.03	88,155.97	2.00	176,311.94		
D311525	Ravenna	GP11/FFATA		2,312,480.00	0.00	1,048,982.00	2.00	2,097,964.00		
D311438	Republican City		F	1,057,060.00	970,554.16	86,505.84	3.00	259,517.52		
D311542	Rogers		F	77,280.00	7,989.82	69,290.18	2.00	138,580.36		
D311559	St. Helena			294,744.00	4,500.00	228,525.00	2.00	457,050.00		
D311218	St. Paul	ARRA	F	606,000.00	86,090.69	519,909.31	2.38	1,237,384.16		
D311053	Schuyler	ARRA	F	1,560,451.00	196,610.61	1,363,840.39	2.00	2,727,680.78		
D311334	Scotia		P	467,415.00	467,415.00	0.00	2.57	0.00		
D311573	Scribner	FFATA		2,800,000.00	0.00	93,061.00	2.00	186,122.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311501	Shelby	ARRA	F	177,707.00	22,359.00	155,348.00	2.00	310,696.00		
D311537	Shelby			1,045,680.00	465,000.00	558,041.00	2.00	1,116,082.00		
D311514	Shelton	GP11/FFATA		1,036,000.00	36,000.00	859,481.00	2.00	1,718,962.00		
D311056	Sidney		P	1,156,000.00	1,156,000.00	0.00	3.00	0.00		
D311351	Sidney		F	7,975,000.00	3,796,253.30	4,178,746.70	2.52	10,530,441.68		
D311057	So. Sioux City		F	267,732.00	188,410.74	79,321.26	3.00	237,963.78		
D311268	So. Sioux City		F	1,331,150.00	813,683.39	517,466.61	2.79	1,443,731.84		
D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		F	100,000.00	25,225.28	74,774.72	2.83	211,612.46		
D311058	Stanton		F	344,991.00	329,157.25	15,833.75	3.00	47,501.25		
D311059	Stanton Co. SID #1		F	353,805.00	142,419.91	211,385.09	4.00	845,540.36		
D311146	Stapleton		F	95,953.00	60,946.89	35,006.11	3.01	105,368.39		
D311060	Stratton		P	167,492.00	167,492.00	0.00	3.00	0.00		
D311336	Stratton		P	1,001,000.00	1,001,000.00	0.00	2.75	0.00		
D311539	Stromsburg			1,497,724.00	1,359,900.00	115,805.00	2.00	231,610.00		
D311502	Sutherland	ARRA	F	1,180,291.00	149,202.67	1,031,088.33	2.02	2,082,798.43		
D311089	Tecumseh		F	478,982.00	290,977.70	188,004.30	3.00	564,012.90		
D311077	Tekamah		F	1,247,818.00	562,035.85	685,782.15	3.00	2,057,346.45		
D311550	Terrytown	GP10		1,288,000.00	0.00	0.00	2.00	0.00		
D311068	Utica		P	458,699.00	458,699.00	0.00	3.00	0.00		
D311577	Utica			1,096,000.00	0.00	221,820.00	2.00	443,640.00		
D311126	Valentine		P	450,000.00	450,000.00	0.00	3.00	0.00		
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	ARRA	F	299,274.00	44,013.99	255,260.01	2.00	510,520.02		
D311275	Wakefield			960,000.00	0.00	227,094.00	2.00	454,188.00		
D311071	Waterloo		F	297,522.00	228,298.89	69,223.11	3.36	232,589.65		
D311375	Wauneta			281,600.00	10,000.00	252,004.00	2.11	531,728.44		
D311276	Wausa		F	289,083.00	123,178.90	165,904.10	3.00	497,712.30		
D311527	Wausa		F	260,814.00	15,605.02	245,208.98	2.23	546,816.03		
D311582	Waverly	U/FFATA		4,610,000.00	0.00	0.00	2.00	0.00		
D311519	Wayne	ARRA	F	762,414.00	96,126.41	666,287.59	2.00	1,332,575.18		
D311558	West Knox RWS-LNNRD	FFATA		886,054.00	0.00	124,666.00	2.50	311,665.00		
D311066	Wood River		P	424,100.00	424,100.00	0.00	3.68	0.00		
D311497	Wymore	ARRA	F	1,489,829.00	219,420.99	1,270,408.01	2.00	2,540,816.02		
D311520	York	U/ARRA	F	2,334,605.00	341,385.98	1,993,219.02	2.00	3,986,438.04		
	TOTAL			199,366,342.00	77,565,263.69	95,543,889.31		235,305,303.19	2.463	2.463
	NOTE: 25 ARRA LOANS									

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

**ATTACHMENT 2
BINDING COMMITMENTS**

COMMUNITY NAME	PROJECT #D31	SMALL SYSTEM (<10,000)	FISCAL YEAR 2013				FISCAL YEAR 2014			
			1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
HOLSTEIN AMD #1	1544	X	13,521							
LOUP CITY	1562	X	221,400							
DENTON	1555	X	814,946							
CREIGHTON AMD #1	1557	X	423,000							
ST. HELENA	1559	X	353,580							
CLARKS AMD #1	1509	X	35,133							
RAVENNA	1525	X	2,890,600							
STROMSBURG AMD #1	1539	X	-							
WAUSA AMD #1	1527	X		20,000						
SHELBY AMD #1	1537	X		-						
BRUNSWICK	1561	X		177,000						
BLAIR AMD #1	1530	X			500,000					
LEIGH	1564	X			590,000					
DAYKIN	1569	X			650,000					
ELGIN	1571	X				1,457,587				
NORTH LOUP	1565	X				1,849,700				
BEE	1389	X				309,139				
CARROLL AMD #1	1456	X				75,560				
ADMINISTRATION										
LINDSAY	1570	X					618,850			
HAIGLER	1566	X					210,000			
SCRIBNER	1573	X					3,500,000			
UTICA	1577	X						1,370,000		
WAKEFIELD	1275	X						1,200,000		
KEARNEY	1579									2,000,000
MCCOOK	1560	X								2,086,810
WAVERLY	1582	X								4,610,000
OGALLALA	1044	X								2,719,119
ADMINISTRATION										
(1) BINDING COMMITMENT TOTALS			4,752,180	197,000	1,740,000	3,691,986	4,328,850	2,570,000	-	11,415,929
(2) CUMULATIVE BINDING COMMITMENTS			213,344,014	213,541,014	215,281,014	218,973,000	223,301,850	225,871,850	225,871,850	237,287,779
FY BINDING COMMITMENT TOTALS					FY2013:	10,381,166			FY2014:	18,314,779
(3) REQUIRED BINDING COMMITMENT*			9,663,240				8,934,500			
(4) CUMULATIVE REQUIRED AMOUNT			159,300,137	159,300,137	159,300,137	159,300,137	168,234,637	168,234,637	168,234,637	168,234,637
(5) BC AS % OF REQ'D BC AMOUNT			133.93	134.05	135.14	137.46	132.73	134.26	134.26	141.05
*100% OF CAPITALIZATION GRANT LESS SET-ASIDE PLUS MATCH, LAGGED BY 1 YEAR FROM PAYMENT										
NOTE: THE REQUIRED BINDING COMMITMENT WAS INCREASED BY \$3,654,323 TO ACCOUNT FOR A GRANT AMENDMENT ADDING BACK THE LAND ACQUISITION SET-ASIDE FOR FY97 THROUGH FY02, \$800,410 for FY03, and \$865,710 for FY06.										

ATTACHMENT 3

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

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

JULY 1, 2012 THROUGH JUNE 30, 2013

**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 22, 2014

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 – 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 2009, Cum. Supp. 2012). 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 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 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, 2013, the EPA had awarded \$140 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$140 million required the State to contribute approximately \$28 million in matching funds. The State provided appropriations to contribute \$2.33 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds of \$5,530,000 in June 2000, \$1,815,000 in March 2001, \$2,000,000 in December 2002, \$1,700,000 in June 2003, \$1,890,000 in September 2004, \$1,920,000 in August 2005, \$1,915,000 in June 2006, \$1,920,000 in September 2007, \$1,965,000 in October 2008, and \$3,110,000 in November 2010.

The 2009 capitalization grant was matched with \$1,629,000 of Administrative Cash Funds. On July 1, 2011, the Nebraska Department of Environmental Quality (Agency) retired the 2001, 2002, 2003, 2005, and 2006 bond issues. After the retirement of outstanding debt on these bonds, \$872,310 remained from the associated reserve funds of the debt. This was used, along with \$1,011,290 of Administrative Cash Funds, to match the 2011 capitalization grant for a total of \$1,883,600 (\$9,418,000 x 20%). On January 1, 2013, the Agency retired the 2004 and 2007 bond issues. After the retirement of these bonds, \$364,390 remained of reserve funds. These reserve funds, along with \$1,430,610 of Administrative Cash Funds, were used to match the 2012 capitalization grant for a total of \$1,795,000 (\$8,975,000 x 20%). Of the \$8,975,000 awarded, \$358,500 was withheld by EPA as an in-kind contribution for funds to pay for a Federally contracted computer system (LGTS), which would track loans and program requirements. The system is still in a development stage.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

An exit conference was held April 4, 2014, with the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program to discuss the results of our examination. Those in attendance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program were:

NAME	TITLE
Kevin Nelson, CPA	DHHS Internal Audit Administrator
Steve McNulty	DHHS Engineer II
Tom Lamberson	DEQ Deputy Director
Pat Rice	DEQ Interim Director
Jack Daniel	DHHS Administrator I
Jim Novotny	DEQ Accountant III
Stephanie Vap-Morrow	DEQ Environmental Assistance Coordinator
Curtis Youngman	DAS State Finance Systems and Reports Coordinator
Steve Rowell	DEQ Environmental Engineer III
Kevin Stoner	DEQ Environmental Quality Section Supervisor
John R. Danforth	DEQ Environmental Assistance Coordinator
Kris Young	DEQ Accountant III
Mary Brady	DEQ Federal Aid Administrator II
Marty Link	DEQ Environmental Quality Associate Program Director
Martie Guthrie	DEQ Budget Officer III
Mark Herman	DEQ Federal Aid Administrator II

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

SUMMARY OF COMMENTS

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

1. ***Transparency Act Reporting:*** During testing of three subawards required to be reported under the Federal Funding Accountability and Transparency Act, it was noted that the required data elements were not correctly entered, and the subawards were not reported timely. Additionally, the Agency did not have procedures in place to review those subawards reported to ensure the data entered was accurate and in compliance with Federal regulations.

More detailed information on the above item is provided hereafter. It should be noted this report is critical in nature, containing only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Agency 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 DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

1. **Transparency Act Reporting**

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

Grant Number & Year: #FS-99780512-0, FFY2012; #FS-99780511-0, FFY2011

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

Criteria: Per Appendix C of the *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting*, dated August 27, 2010, the subaward obligation/action date is the date the subaward agreement was signed. The subaward number is the identifying number assigned by the prime awardee organization to facilitate the tracking of its subawards. The subaward date represents the time period (by month and year) for subawards made against that Federal Award Identifier Number (FAIN).

2 CFR § 170 (January 1, 2013) provides guidance to agencies on establishing requirements for recipients' reporting of information on subawards, as required by the Federal Funding Accountability and Transparency Act (FFATA). Appendix A, § I (a)(2), of that Federal regulation states:

i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

Per OMB Circular A-133, § ____ .300(b) the Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 guidance on FFATA are reported accurately and timely in the FFATA Subaward Reporting System (FSRS) and reflected on the USAspending website. Additionally, a good internal control plan requires procedures to ensure the sources of required data elements are consistent.

Condition: The Agency did not comply with all Federal regulations relating to the guidance on FFATA reporting.

Questioned Costs: None

Context: The APA tested three subawards that were required to be reported under the Transparency Act and noted the following:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

(Continued)

1. Transparency Act Reporting (Continued)

- One of three subawards tested did not have the correct subaward obligation date. The date of the Federal award from the EPA was entered rather than the subaward date.
- For two of the three subawards tested, the subaward date was reported as the month and year the report was filed, but it should have been the date the subrecipient could start spending the funds.
- One of the three subawards tested was not reported in FSRS; therefore, it did not show up on the USAspending website. Per the Agency, the subgrantee's Data Universal Numbering System (DUNS) was not tied to a congressional district, so the award was unable to be entered into the FSRS. The Agency attempted to enter the subaward during the APA's fieldwork, and the report was entered successfully. The subaward was reported 249 days late.
- One of the three subawards was shown on the USAspending website more than once.
- The Agency did not review the FSRS or the USAspending website to ensure subawards were appropriately entered, as required.
- The Agency used the subaward signature date as the subaward obligation date for Clean Water grants, while for Drinking Water grants the Agency used the subaward contract date as the subaward obligation date.

Cause: The Agency failed to establish adequate internal controls over its FFATA reporting process.

Effect: Noncompliance with Federal regulations, which could result in sanctions.

Recommendation: We recommend the Agency implement procedures to ensure required data for the FFATA is entered correctly and on time in the FSRS and on the USAspending website in compliance with Federal requirements. Additionally, we recommend the Agency implement a monthly review of FFATA data entered to ensure data elements are accurately reported and that subawards are only reported once. Finally, we recommend that the Agency determine a consistent method for reporting the subaward obligation date that is in compliance with Federal requirements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

(Continued)

1. Transparency Act Reporting (Concluded)

***Management Response:** The electronic system provided to enter FFATA reporting information into had several problems when it was deployed. Screens locked up, there were no search capabilities, and changes or updates created additional reports and entries that were not desired. Many of those elements have been improved, but initially our entry into the system was by trial and error. Due to the unique characteristics of the SRF Program and corresponding loan contracts, some of the decisions on dates and amounts to use for reporting were not clear. EPA helped to explain what was expected, and the Agency made those changes in an effort to comply with the FFATA Federal regulation.*

***Corrective Action:** The Agency will evaluate the procedures it uses for FFATA compilation and data entry, to make sure there is consistency in application, that all data is collected, and ensuring information is submitted in a timely manner. Communication of these procedures will be made to SRF program staff once determined.*

***Contact:** Stephanie Vap-Morrow*

***Anticipated Completion Date:** May 31, 2014*



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2013, 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 above present fairly, in all material respects, the respective balance sheet of the business-type activities of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program, as of June 30, 2013, and the respective changes in financial position and 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, 2013, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 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, who 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 11, 2014, 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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, we have also issued our report dated April 11, 2014, 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.

Lincoln, Nebraska
April 11, 2014



Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2013. 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. The Program's basic financial statements include: 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 OF ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2013, the net position of the Program increased by 8%. Operating revenues for the Program decreased by 2%, while operating expenses decreased by 26%.

NET POSITION			
	2013	2012 (As Restated)	% Change
Current Assets	\$ 59,924,580	\$ 57,565,067	4%
Noncurrent Assets	85,238,213	80,697,424	6%
Total Assets	145,162,793	138,262,491	5%
Current Liabilities	1,367,728	1,806,106	-24%
Noncurrent Liabilities	5,584,055	8,676,638	-36%
Total Liabilities	6,951,783	10,482,744	-34%
Net Position:			
Restricted	1,019,143	1,693,008	-40%
Unrestricted	137,191,867	126,086,739	9%
Total Net Position	\$ 138,211,010	\$ 127,779,747	8%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

CHANGES IN NET POSITION			
	2013	2012 (As Restated)	% Change
Loan Fees Administration	\$ 927,572	\$ 984,120	-6%
Interest	3,757,905	3,775,439	-1%
Fines, Forfeits & Penalties	-	2,131	-100%
Total Operating Revenues	4,685,477	4,761,690	-2%
Administration & Set-Asides	2,279,006	2,442,052	-7%
ARRA Loan Forgiveness	-	197,585	-100%
Non-ARRA Loan Forgiveness	1,483,094	2,469,043	-40%
Total Operating Expenses	3,762,100	5,108,680	-26%
Operating Income (Loss)	923,377	(346,990)	366%
Capital Contributions Federal Grants	9,480,740	8,510,580	11%
Capital Contributions ARRA Grants	346,857	373,654	-7%
Interest Expenses on Bonds	(319,711)	(407,026)	-21%
Net Nonoperating Revenue (Expense)	9,507,886	8,477,208	12%
Change in Net Position	10,431,263	8,130,218	28%
Beginning Net Position July 1	127,779,747	119,649,529	7%
Ending Net Position June 30	\$ 138,211,010	\$ 127,779,747	8%

The most significant changes from the fiscal year ended June 30, 2012, to the fiscal year ended June 30, 2013, were the Administration and Set-Asides and Non-ARRA Loan Forgiveness balances, Change in Net Position, and the amount received from Capital Contributions. The final amount of ARRA funding was paid out in fiscal year 2013, which was minimal compared to prior years. Administrative and Set-Aside expenses decreased from last fiscal year, due to the fact the Program did not issue bonds for the required grant match; thus, the typical administrative and/or legal costs associated with that activity were not incurred. Non-ARRA Loan Forgiveness also decreased, which was a result of the types and make-up of loans paid out during the year. Forgiveness dollars were awarded per grant requirements, but were not necessarily paid out on an annual basis. Due to several bond redemptions in the current and previous years, the cash balance has increased significantly. This has resulted in a higher Net Position balance. Capital contributions, in large part, are related to the loan amounts being paid to communities during construction. During the fiscal year, there was more demand for grant dollars to pay for construction loans and, therefore, an increase in Capital Contributions Federal Grants.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

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.

ECONOMIC OUTLOOK

Net State General Fund revenues for fiscal year 2013 finished the year 7.6% above projections. The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to draw the amount of user fees needed to fund infrastructure requirements. As of the fiscal year ended June 30, 2013, the Program had received \$19,500,000 in ARRA funds, and about half of those funds were provided as principal forgiveness to communities. The ARRA funding did not require a State match.

DEBT ADMINISTRATION

Long-Term Debt

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
JUNE 30, 2013

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 41,050,227
Amounts Held by Trustee (Note 2)	9,965,770
Due from Federal Government	215,576
Interest Receivable	69,516
Loans Receivable (Note 3)	8,623,491
TOTAL CURRENT ASSETS	<u>59,924,580</u>
NON-CURRENT ASSETS:	
Loans Receivable (Note 3)	85,238,213
TOTAL NON-CURRENT ASSETS	<u>85,238,213</u>
TOTAL ASSETS	<u><u>\$ 145,162,793</u></u>
LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable & Accrued Liabilities	\$ 262,094
Due to Grant Recipients (Note 1)	221,631
Compensated Absences (Note 5)	1,434
Accrued Bond Interest Payable	132,569
Bonds Payable (Note 4)	750,000
TOTAL CURRENT LIABILITIES	<u>1,367,728</u>
NON-CURRENT LIABILITIES:	
Compensated Absences (Note 5)	19,055
Bonds Payable (Note 4)	5,565,000
TOTAL NON-CURRENT LIABILITIES	<u>5,584,055</u>
TOTAL LIABILITIES	<u>6,951,783</u>
NET POSITION	
Restricted for Bond Payments	1,019,143
Unrestricted	137,191,867
TOTAL NET POSITION	<u>138,211,010</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 145,162,793</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, 2013

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	\$ 927,572
Interest on Loans	2,325,298
Interest on Fund Balance - Trustee	512,936
Interest on Fund Balance - State Operating Investment Pool (Note 8)	919,671
TOTAL OPERATING REVENUES	4,685,477
 OPERATING EXPENSES:	
Administrative Costs from Fees (Note 9)	486,262
15% Source Water Assessment Program (Note 9)	610,399
2% Technical Assistance to Small Systems (Note 9)	221,077
10% Public Water Supply System (Note 9)	961,268
Loan Forgiveness (Note 9)	1,483,094
TOTAL OPERATING EXPENSES	3,762,100
 OPERATING INCOME	923,377
 NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 6)	9,480,740
Capital Contributions - ARRA Federal Grants (Note 6)	346,857
Interest Expense - State Match Bonds	(319,711)
NET NONOPERATING REVENUE (EXPENSE)	9,507,886
 CHANGE IN NET POSITION	10,431,263
 TOTAL NET POSITION, BEGINNING OF YEAR - As restated (Note 12)	127,779,747
 TOTAL NET POSITION, END OF YEAR	\$ 138,211,010

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, 2013

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 18,956,093
Interest on Investments	1,424,431
Payments to Borrowers	(12,933,987)
Payments to Borrowers ARRA	(346,857)
Payments for Administration	(485,028)
Payments for 15% Source Water Assessment Program	(560,365)
Payments for 2% Technical Assistance to Small Systems	(267,044)
Payments for 10% Public Water Supply System	(1,015,364)
Payments for Loan Forgiveness	(1,485,780)
Payments for Loan Forgiveness ARRA	(95,604)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,190,495
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	9,455,473
Funds Received From the Environmental Protection Agency - ARRA Funds	442,461
Bond Principal Payments	(3,315,000)
Bond Interest Payments	(388,589)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	6,194,345
Increase in Cash and Cash Equivalents	9,384,840
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,631,157
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 51,015,997
RECONCILIATION OF OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 923,377
ADJUSTMENTS TO RECONCILE OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	2,422,379
(Increase)/Decrease in Interest Receivable	(8,177)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(51,393)
Increase/(Decrease) in Compensated Absences	2,599
Increase/(Decrease) in Due to Grant Recipients	(98,290)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,190,495

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, 2013

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS) and the Trustee (Wells Fargo Bank) 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 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 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 Nebraska Department of Environment Quality – Drinking Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 – General Fund 10000; Federal Funds 48416, 48417, and 48418; and Bond Funds 68480, 68481, 68482, 68483, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

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

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

The activity of these State of Nebraska funds 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

In addition to bank accounts and petty cash, this classification includes all short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2013, 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.

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

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. 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 and for accrued interest during the project period. The interest rates on loans range from 2.0% to 4.3%, and the terms could be 5 to 20 years. Disadvantaged communities may have up to 30 years to repay.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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. 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, 2013, which is collectible in fiscal year 2014. Loans receivable that were paid in full, prior to their due date, as of December 31, 2013, were included in the current loans receivable balance.

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

G. Restricted Net Position

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

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Compensated Absences

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

J. 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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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 payment to their vendors, they are reimbursed for their 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.

K. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Program's principal ongoing operations. The primary operating revenues of the Program are the loan fees administration and interest on loans, since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and loan forgiveness.

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, 2013. 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 2013. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee. The Nebraska Investment Finance Authority (NIFA) (the "Issuer") issues revenue bonds, the proceeds of which are used by the Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Master Trust Indenture dated June 1, 2000. At June 30, 2013, the amount held by the Trustee of \$9,965,770 was considered cash and cash equivalents and was stated at fair value, except for the amounts invested in Guaranteed Investment Contracts (GICs), where no readily ascertainable fair value was available. For this investment, the Program

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

manager received an estimate of fair value from the Trustee. The amount held by the Trustee consisted of the following:

	<u>Fair Value</u>
Money Market Account	\$ 2,403,120
Guaranteed Investment Contracts (GICs) in CDC Funding Corporation	<u>7,562,650</u>
TOTAL	<u><u>\$ 9,965,770</u></u>

The amounts shown as cash and as a money market account above are deposits, as defined by GASB. As such, those deposits have custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Program's deposits may be lost. Of the \$2,403,120 in deposits held by the Trustee, \$250,000 was covered by FDIC insurance, and \$2,153,120 was uninsured and uncollateralized during and at the end of the fiscal year ended June 30, 2013, and, thus, exposed to custodial credit risk. The Program does not have a custodial credit risk policy for deposits.

The Program monies identified in this section are held and invested by the Trustee in its capacity as trustee for the bonds, as specified in the Master Trust Indenture, Section 1.01, dated as of June 1, 2000. That document defines "Investment Obligations" as:

- (a) *direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America;*
- (b) *bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America;*
- (c) *interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) to (b), inclusive, of this definition, or a combination thereof;*
- (d) *money market funds or similar funds which invest exclusively in obligations described in clause (a), (b) or (e) of this definition, or a combination thereof;*
- (e) *bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority or body or instrumentality thereof which constitute obligations described in Section 103(a) of the Code which have a fixed par*

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

value and a fixed amount due at maturity and on call dates and are either rated "MIG 1" by Moody's and rated "SP-1+" by Standard & Poor's for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor's and by Moody's;

- (f) any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under the laws of any state, or a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;*
- (g) investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a state banking association which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United States branch or agency of a foreign bank, which foreign bank consents to in personam jurisdiction and which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds; or*
- (h) obligations of an insurance company which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds.*

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

- Credit Risk – Credit risk is a risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization. The CDC Funding Corporation GIC was rated A-1 by Standard & Poor's Rating Group.
- Custodial Credit Risk of Investments – Custodial credit risk of investments is the risk that, in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.

- Concentration of Credit Risk – When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 76% of its total investments in the GIC fund.

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

3. Loans Receivable

As of June 30, 2013, the Program had 121 outstanding community loans that totaled \$93,861,704. The outstanding balances of the 10 communities with the largest loan balances, which represent 53.2% of the total loans, were as follows:

Community	Outstanding Balance
McCook	\$ 7,459,026
Gering	6,293,935
Lincoln	5,821,427
North Platte	5,666,339
Metropolitan Utilities District	5,504,723
Sidney	4,644,655
Blair	4,368,394
Auburn	4,188,627
Alliance	3,662,301
Beaver Lake Association	2,282,664
TOTAL	\$ 49,892,091

4. Bonds Payable

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues the bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes. The Series 2000A, 2008A, and

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Bonds Payable (Concluded)

2010A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A, 2008A, and 2010A Bonds are revenue bonds. The Series 2000A, 2008A, and 2010A Bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged for the payment of principal, premium, if any, or interest on the Series 2000A, 2008A, and 2010A Bonds. The current bonds payable amount was determined using the amount of bond principal to be retired in fiscal year 2014. Bonds payable for the fiscal year ended June 30, 2013, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds Payable	\$9,630,000	\$ -	\$3,315,000	\$6,315,000	\$750,000

Bonds Payable at June 30, 2013, consisted of the following:

Series	Original Issue	Retirements	2013 Balance	Interest Rate	Final Maturity Date
2000A	\$5,530,000	\$ 3,640,000	\$1,890,000	4.8-5.7%	July 1, 2015
2008A	1,965,000	455,000	1,510,000	2.75-5.0%	Jan. 1, 2023
2010A	3,110,000	195,000	2,915,000	.9-4.0%	July 1, 2025

The 2000A Series Bonds were issued June 29, 2000, the Series 2008A Bonds were issued October 3, 2008, and the Series 2010A Bonds were issued November 12, 2010. Bonds mature at various intervals through July 2025. On July 1, 2011, the Agency redeemed series 2001A, 2002A, 2003A, 2005A, and 2006A bonds in the principal amount of \$5,725,000 and accrued interest in the amount of \$124,123. On January 1, 2013, the Agency redeemed series 2004A and 2007A bonds in the principal amount of \$2,345,000 and accrued interest in the amount of \$52,444. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 750,000	\$ 252,194	\$ 1,002,194
2015	780,000	220,288	1,000,288
2016	1,350,000	170,135	1,520,135
2017	340,000	131,805	471,805
2018	355,000	121,093	476,093
2019-2023	1,965,000	391,756	2,356,756
2024-2026	775,000	47,100	822,100
TOTAL	\$ 6,315,000	\$ 1,334,371	\$ 7,649,371

Federal arbitrage regulations are applicable to these bonds.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2013, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 17,890	\$ 2,599	\$ -	\$ 20,489	\$ 1,434

6. 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, 2013. 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, 2013, and may have been drawn over multiple years.

<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	8,100,557	45,443
2010	13,573,000	10,950,556	2,622,444
2011	9,418,000	4,081,143	5,336,857
2012	8,616,500	1,658,556	6,957,944
TOTAL	<u>\$159,458,226</u>	<u>\$144,495,538</u>	<u>\$14,962,688</u>

The 2012 grant was delayed and was not awarded until August 15, 2012, after the end of State fiscal year 2012.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Capital Contributions (Concluded)

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

Contributed Capital July 1, 2012	
(Reduced by \$1,629,000 of State match funds previously included)	\$ 136,926,440
Contributed During the Year:	
Funds from EPA	9,480,740
Funds from ARRA	346,857
Contributed Capital June 30, 2013	<u>\$ 146,754,037</u>

Also included in the contributed capital is a total of all general funds received by the Program from the Legislature of the State of Nebraska. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed \$1,162,318 and \$1,166,518 in the fiscal years ended June 30, 1998, and 1999, respectively. Included in the Funds from EPA and Funds from ARRA amounts is the net decrease in Due from Federal Government of \$70,337.

Nebraska was awarded \$19,500,000 in American Recovery and Reinvestment Act (ARRA) funds for upgrades to public water systems. ARRA provided new, one-time funding, which was combined with existing funds from the Drinking Water State Revolving Fund. ARRA required the State to use at least 50% of the funds provided by this grant to offer additional subsidization in the form of principal forgiveness.

7. 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. This fee 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 Chapter 8 and the loan agreement.

8. Interest on Fund Balance - State Operating Investment Pool

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. 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. 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:

- 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9. Operating Expenses (Concluded)

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 bank 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:

- 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 amount 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.

10. 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
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NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

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

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

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

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, 2013, employees contributed \$10,597, and the Agency contributed \$16,531. 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. Contingencies and Commitments

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

- A. Motor vehicle liability, which is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident, except for accidents involving vehicular pursuit, which have a \$1,000,000 self-insured retention per accident. Insurance is also purchased, 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. Life insurance for eligible employees.
- C. 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.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

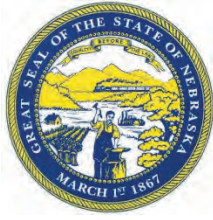
11. Contingencies and Commitments (Concluded)

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.

12. Restatement of Beginning Net Position

Beginning Net Position on the Statement of Revenues, Expenses, and Changes in Net Position decreased by \$34,009 to reflect fiscal year ended 2012 unrecorded expenses of \$319,921 and a related receivable, Due from Federal Government, of \$285,912 that had not been reflected in the prior year.



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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, 2013, 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 11, 2014.

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*.

The Nebraska Department of Environmental Quality's Response to the Finding

We noted a certain matter that we reported to management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program in the Comments Section of this report as Comment Number 1 (Transparency Act Reporting).

The Nebraska Department of Environmental Quality's response to the finding identified in our audit is described in the accompanying Comments Section of this report. The Nebraska Department of Environmental Quality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 11, 2014



Don Dunlap, CPA
Assistant Deputy Auditor



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

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 *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* 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, 2013. We audited the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with requirements governing: Allowability for Specific Activities; Allowable Costs/Cost Principles; Cash Management; Davis Bacon; State Matching; Period of Availability of Funds; Suspension and Debarment; Program Income; Reporting; Subrecipient Monitoring; and Special Tests and Provisions.

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 *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards and the Audit Guide 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* and which is described in the Comments Section of this report as Comment Number 1 (Transparency Act Reporting). Our opinion on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program is not modified with respect to this matter.

The Nebraska Department of Environmental Quality's response to the noncompliance finding identified in our audit is described in the accompanying Comments Section. The Nebraska Department of Environmental Quality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Accordingly, this report is not suitable for any other purpose.

Lincoln, Nebraska
April 11, 2014



Don Dunlap, CPA
Assistant Deputy Auditor

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2014 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
HAIGLER, VILLAGE OF	Point-of-Use Treatment, Well Relining, Tower Repaint and Water Main Improvements	The Village of Haigler is planning to install Point-of-Use treatment in their Public Water System (PWS) to remove Arsenic from their water supply. In addition, the community will repaint their water tower, reline an existing supply well and replace a few blocks of water main.	Arsenic concentrations in the Village's supply wells have ranged up to 25.1 µg/L, consistently detected above EPA's MCL. The Village has received an exemption from the Arsenic drinking water standard that is scheduled to expire in January 2015. As a result, the Village's engineer completed a study that included evaluating a new water source and numerous treatment alternatives. Upon an evaluation of costs, Point-of-Use treatment while notably expensive is the most affordable of the return to compliance alternatives considered.	The infrastructure investment in replacing water mains is in line with the stated goals of EPA's Drinking Water Infrastructure Sustainability Policy.

<p>KEARNEY, CITY OF</p>	<p>Ultraviolet Disinfection Facility and Contact Time Building</p>	<p>In March 2013, a report on the Demonstration of Performance to Establish Natural Filtration Credits for Kearney's Platte River Well Field was completed. This study was initiated as the Surface Water Treatment Rule requires filtration and disinfection of all Ground Water Under the Influence of Surface Water (GWUDI) sources to remove or inactivate water-borne pathogens. The City's Well Field has previously been deemed GWUDI and in June 2013, state regulations were established for public water system compliance with the Long Term 2 Enhanced Surface Water Treatment Rule. Under that new rule, surface water monitoring categorized the Platte River Well Field into Bin 2, which requires 4-log reduction of Cryptosporidium, thus prompting the need for the study. The study demonstrated a 2.5 log removal credit for cryptosporidium, as well as a maximum 2.5 log removal for giardia lamblia through natural filtration at the well field site. An additional 0.5 log of giardia inactivation must be provided by chlorination, which will be documented at the new Contact Time building, and an additional log of cryptosporidium removal/inactivation is required, which will be accomplished by the proposed Ultraviolet (UV) Disinfection facility. UV was chosen over other less cost effective alternatives (e.g., ozone, etc.) for the well field that generally produces an average of 4 million gallons of water per day, with a summer peak of 11 million gallons per day.</p>	<p>In March 2013, a report on the Demonstration of Performance to Establish Natural Filtration Credits for Kearney's Platte River Well Field was completed. The study demonstrated a 2.5 log removal credit for cryptosporidium, as well as a maximum 2.5 log removal for giardia lamblia through natural filtration at the well field site. An additional 0.5 log of giardia inactivation must be provided by chlorination, which will be documented at the new Contact Time building, and an additional log of cryptosporidium removal/inactivation is required, which will be accomplished by the proposed UV Disinfection facility.</p>	<p>N/A</p>
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LINDSAY, VILLAGE OF	Blending Well and Transmissi on Main	<p>In March 2012, the Village's Engineer completed a Preliminary Engineering Report (PER) that evaluated Lindsay's water system needs. The PWS consists of two municipal wells, an elevated 50,000 gallon water storage tower, and a distribution system. The Village's primary Well No. 89-1 has a capacity of 500 gallons per minute (gpm) and is in operable condition. Lindsay's backup Well No. 83-1 had a similar pumping capacity, but was previously placed on emergency use only status due to high Nitrate levels. Then in November 2011 the Village was issued an Administrative Order for Nitrate violations of the Maximum Contaminant Level (MCL) as Well No. 89-1 noted a concentration of 10.7 mg/L. Further monitoring recorded levels as high as 12.4 mg/L, supporting the recommendation in the engineering report that Lindsay construct a new water well. From an evaluation of projected water supply needs of the existing system users, the new well will be connected to the existing supply wells through a transmission main to allow for blending.</p>	<p>Test Hole data from the well site showed a Nitrate level of 4.1 mg/L, allowing blending to be considered a feasible alternative to return the Village into compliance with the Nitrate drinking water standard.</p>	<p>A small portion of the project will consist of an upgrade to automatic radio read meters at the Village's service connections and thus are categorically eligible for funding under the Green Project Reserve.</p>
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MCCOOK, CITY OF	WTP Disposal, Transmission Main and Distribution System Improvements	<p>The project will provide a method of disposing cation waste generated by McCook's ion exchange Water Treatment Plant (WTP), by the utilization of 2 new evaporation ponds or lagoons to evaporate the cation wastewater from the water treatment plant process. Currently the cation waste is pumped to McCook's Wastewater Treatment Plant (WWTP). Due to the high Total Dissolved Solids and chlorides in the cation waste the WWTP discharge fails the NDEQ NPDES required whole effluent toxicity test during periods when the WTP is experiencing high flows. The project will require approximately 10 acres of land for construction immediately northwest of McCook's wastewater treatment plant. The proposed evaporation lagoon acreage are 2 cells at 2.5 acre each both lined with a flexible synthetic membrane liner. Further, there will be three water main phases, including: 1) 16" Transmission Main Replacement – This project includes the replacement of approximately 8,000 lineal feet of 16" watermain from the water treatment facility to the distribution system. The existing 16" watermain was removed from service in 2006 due to leaks and will be replaced with a 24" transmission main to provide additional flow to the City and act as a back-up to the existing primary 24" transmission main. 2) East "H" Street Watermain Replacement – This project includes the replacement of existing undersized 4" watermain with an 8" watermain on East "H" Street from East 7th Street to 600 feet east connecting to an existing 16" water main to provide additional flow in the area. 3) East "C" Street Watermain Improvements – This project includes the abandonment of a dead-end 4" watermain on E. "C" Street between East 13th Street and Airport Road and the reconnection of approximately 15 services to the existing 10 inch watermain that runs parallel on the north side of "C" Street.</p>	N/A	The infrastructure investment in replacing water mains is in line with the stated goals of EPA's Drinking Water Infrastructure Sustainability Policy.
OGALLALA, CITY OF	New Well with Transmission & Distribution System Improvements, Water	<p>In April 2013, a PER was completed by the City's Engineer. The PWS consists of eight municipal wells, two elevated water storage towers (North-500,000 Gallons and South-200,000 Gallons), a 500,000 Gallon capacity Central Ground Level Tank and a distribution system, which has two different pressure zones. The south pressure zone only has one well that has been placed on emergency use only status because it was</p>	The City's south pressure zone only has one well that has been placed on emergency use only status because it was pumping sand and due to the presence of Nitrates detected above the Maximum Contaminant Level, with concentrations ranging	N/A

	Storage Repair and New Controls	<p>pumping sand and due to the presence of Nitrates detected above the Maximum Contaminant Level, with concentrations ranging up to 12 mg/L. The north pressure zone therefore must provide water supply to the south, which limits the capacity of the water system since the high water level of the Central Ground Level Tank is set five feet lower than the high level of the South Tower. Further, with head-loss in transmitting water from the high to low pressure zones a significant portion of the South Tower is inoperative and unavailable for water storage. Lastly, it was identified that certain North wells cannot operate simultaneously due to mutual well interference. Two primary alternatives were evaluated, constructing a new well with transmission main to serve the south side of the City or no build. A no alternative was easily eliminated due to the inefficient operation conditions the City's system is experiencing, thus the new well alternative was recommended. A well site has been approved by the DHHS, with both acceptable water quality and quantity. The transmission main and any associated distribution system improvements will be reasonably sized for both future growth and to allow for future replacement of any the North wells to the south, as replacing them to the north of the City is not recommended due to the noted interference issue. Further, an additional ring will be added to the Central Ground Level Tank, to better equalize the pressure differences between the north and south zones of the system. Lastly, repairs will be made to the South Tower based on recent inspection findings and the City's water system controls will be upgraded, as they are presently outdated and at times malfunctioning. After completion of those improvements, the City has identified needs to replace distribution mains and water meters, which can be funded through the planned DWSRF assistance.</p>	up to 12 mg/L. This project will replace that well.	
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<p>SCRIBNER, CITY OF</p>	<p>Replacement Water Treatment Plant, Water Supply Wells and Distribution System Improvements</p>	<p>In February 2012, a PER was completed by the City's engineer. The PWS consists of two municipal wells, a WTP, an elevated 300,000 gallon water storage tower, and a distribution system. The City's WTP and primary supply well were built in the early 1950's, while the backup well was constructed in 1920. All are past their design life, and due to the continued state of deterioration add excessive maintenance costs in order to operate the system. Local levels of iron and manganese are 5 to 18 times the Environmental Protection Agency's (EPA) Secondary MCL. Regionally, even higher levels have been detected. Due to age and deterioration, the existing plant no longer effectively removes iron and manganese. The majority of the distribution system is comprised of cast or ductile iron pipe, which is predominantly 4-inch sized main. The PER identified areas that needed to be replaced due to historical pipe failures and other locations that are dead-end lines which need to be looped.</p>		<p>The majority of the project achieves a goal in the EPA's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure. EPA's secondary MCLs were set as guidelines to assist public water systems in managing their drinking water for aesthetic considerations. While not considered a public health concern, EPA established the secondary standards because a great number of people may stop using water from their public water system even though the water is actually safe to drink.</p>
<p>UTICA, VILLAGE OF</p>	<p>Water System and Municipal Water Well Improvements</p>	<p>In April 2013, a PER was completed by the Village's engineer to review and evaluate existing deficiencies in Utica's water supply, storage and distribution system. The public water system consists of two municipal wells, a water treatment plant, an elevated 200,000 gallon water storage tower, and a distribution system. Utica's water supply wells were constructed in 1989 and 1999. The wells pump directly into the iron and manganese treatment plant, but can also bypass the treatment plant and directly fill the elevated storage tank. Each well has historically pumped between 400 and 500 gpm when in use. Well 1999-1 is meeting operational conditions and no changes are proposed at this time. Well 1989 -1 has holes in the screen and the column and needs to be replaced to provide the Village water system with a back-up water source. The iron and manganese removal water treatment plant was constructed in 1995. Modifications to the backwash discharge piping will be made as part of the project. Lastly, the majority of the distribution system is comprised of cast or ductile iron pipe ranging in size from two to eight inches in diameter. When the existing water main needs to be replaced, it is replaced with PVC pipe. The PER identified areas that need to be replaced due to historical pipe failures and</p>	<p>N/A</p>	<p>The majority of the project achieves a goal in the EPA's Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.</p>

		other locations that are dead-end lines which need to be looped. Looping of dead end mains will result in both improved flows and system pressures to those areas of the distribution system.		
WAKEFIELD , CITY OF	Replace Tower and Distribution System Improvements	In January 2012, the City's Engineer completed a Preliminary Design Memorandum that evaluated Wakefield's water system needs. The PWS consists of four municipal wells that pump to an iron/manganese treatment plant, an elevated 200,000 gallon water storage tower, and a distribution system. Through regular monitoring it is documented that Wakefield's water supply is acceptable, presently meeting all drinking water standards. However, a hydraulic analysis showed that the existing tower is sized less than the current 330,000 gallon average day demand and that residential areas at higher elevations experience low service pressures. Based upon that information it was recommended that the City proceed with a tower replacement project and distribution system improvements through replacement and looping of water mains. The tower will be sized at a 600,000 gallon capacity and placed at an elevation to provide a minimum service pressure to the entire City of 48 psi. Further, the high service pumps at the treatment plant will be upgraded to pump to the new tower height. The first four improvement phases identified in the Design Memorandum are fundable under the DWSRF as they are needed to address existing deficiencies in the PWS, while also being reasonably sized for future growth.		The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.

<p>WAVERLY, CITY OF</p>	<p>Consolidate d Chemical Feed Building w/ New Wells and Transmissi on Main, Ground Storage and Mains</p>	<p>There are multiple purposes for the project. Raw water transmission main will be piped from the existing wells south of Interstate 80, to the new pump building for Well No. 10. That building will also provide for a single chemical feed point for those wells, and the new submersible Well No. 11. It will be equipped with a standby generator, in case a backup power supply is ever needed. From there a finished water transmission main will be sent to both the new 500,000 gallon ground storage tank and connect to the existing transmission main to the City, which crosses Interstate 80. A second redundant transmission main crossing the highway will also be constructed to the north, which will ensure that the developed water supply can always be pumped to the City. Looping or tie-ins of existing water mains will also be completed in two existing sections of the City's distribution system, including a new crossing of the B.N.S.F railroad and Highway 6, which bisect the community. The ground storage tank is needed as the existing tower cannot meet the present 615,000 gallon average day demand need for the PWS, a recommended design standard. All together the improvements will assure that the City can provide an adequate supply of safe drinking water to Waverly's residents on a continuous basis, a requirement of DHHS regulations.</p>	<p>The consolidated chemical feed building, equipped with standby power, will ensure that the system can maintain corrosion control on a continuous basis.</p>	<p>N/A</p>
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SFY 2014 FUNDING LIST PLANNED					SFY 2013/2014 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	NORTH LOUP, VILLAGE OF	\$ 1,849,700	\$ 647,395	\$ 1,849,700	\$ 647,395	\$ 1,202,305	SFY2013-Q4	
2	FNSI	LINDSAY, VILLAGE OF	\$ 882,860	\$ 268,919	\$ 618,850	\$ 188,502	\$ 430,348	SFY2014-Q1	
3	FNSI	ELGIN, CITY OF	\$ 2,369,000	\$ 473,800	\$ 1,457,587	\$ 291,517	\$ 1,166,070	SFY2013-Q4	
4	FNSI	BEE, VILLAGE OF	\$ 309,139	\$ 61,828	\$ 309,139	\$ 61,828	\$ 247,311	SFY2013-Q4	
5	FNSI	HAIGLER, VILLAGE OF	\$ 200,000	\$ 40,000	\$ 210,000	\$ 42,000	\$ 168,000	SFY2014-Q1	
6	FNSI	LEIGH, VILLAGE OF - SFY 2013	\$ 590,000	\$ 150,000	\$ 590,000	\$ 150,000	\$ 440,000	SFY2013-Q3	
7	FNSI	SCRIBNER, CITY OF	\$ 3,510,000	\$ 702,000	\$ 3,500,000	\$ 700,000	\$ 2,800,000	SFY2014-Q1	
8	FNSI	DAYKIN, VILLAGE OF	\$ 600,000	\$ 120,000	\$ 650,000	\$ 130,000	\$ 520,000	SFY2013-Q3	
9	FNSI	WAKEFIELD, CITY OF	\$ 2,006,000	\$ 401,200	\$ 1,200,000	\$ 240,000	\$ 960,000	SFY2014-Q2	
10	FNSI	MCCOOK, CITY OF	\$ 1,821,500	\$ 364,300	\$ 2,086,810	\$ 417,362	\$ 1,669,448	SFY2014-Q4	
11	175	CAMPBELL, VILLAGE OF	\$ 1,030,000	\$ 206,000	\$ -	\$ -	\$ -	TBD	Project may be funded by USDA-RD
12	165	DAVEY, VILLAGE OF	\$ 1,070,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
13	165	WOOD LAKE, VILLAGE OF	\$ 100,000	\$ 20,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
14	160	GREEN ACRES MOBILE HOME COURT - SFY 2012	\$ 51,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded
15	135	GRETNA, CITY OF	\$ 1,680,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded
16	135	OGALLALA, CITY OF - SFY 2013	\$ 2,195,195	\$ 439,039	\$ 2,719,119	\$ 543,824	\$ 2,175,295	SFY2014-Q4	
17	135	SPRAGUE, VILLAGE OF	\$ 5,250	\$ 1,050	\$ -	\$ -	\$ -	N/A	Project privately funded
18	120	CEDAR-KNOX RWD	\$ 540,000	\$ 108,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
19	110	GARLAND, VILLAGE OF	\$ 639,100	\$ 127,820	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
20	110	KILGORE, VILLAGE OF	\$ 351,300	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
21	100	SAUNDERS CO SID 6 - RIVERVIEW	\$ 186,000	\$ 7,124	\$ -	\$ -	\$ -	N/A	Project privately funded
22	100	UTICA, VILLAGE OF	\$ 1,450,000	\$ 290,000	\$ 1,370,000	\$ 274,000	\$ 1,096,000	SFY2014-Q2	
23	70	MULLEN, VILLAGE OF	\$ 600,000	\$ 120,000	\$ -	\$ -	\$ -	N/A	Project privately funded
24	70	WEST KNOX RWD	\$ 2,426,433	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
SFY 2014 PLANNING LIST - BYPASS SYSTEMS					SFY 2014 FUNDED PROGRAM				
NR	135	KEARNEY, CITY OF	\$ 19,984,000	N/A	\$ 2,000,000	\$ -	\$ 2,000,000	SFY2014-Q4	Funded per SFY2014 Bypass Criteria
NR	30	WAVERLY, CITY OF	\$ 3,300,000	N/A	\$ 4,610,000	\$ -	\$ 4,610,000	SFY2014-Q4	Funded per SFY2014 Bypass Criteria
					\$ 23,171,205	\$ 3,686,428	\$ 19,484,777		

SFY 2014 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2014 GREEN PROJECT RESERVE FUNDED PROGRAM				
PROJECT RANK	PUBLIC WATER SYSTEM	ESTIMATED COST	ESTIMATED FORGIVENESS	TOTAL ASSISTANCE	ACTUAL FORGIVENESS	NET LOAN AMOUNT	AGREEMENT DATE/QUARTER	FUNDING DESCRIPTION AND/OR COMMENTS
1	BAYARD, CITY OF - SFY 2012	\$ 200,000	\$ 40,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
2	KENESAW, VILLAGE OF	\$ 644,000	\$ 92,672	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
4	LODGEPOLE, VILLAGE OF	\$ 300,000	\$ 60,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
				\$ -	\$ -	\$ -		