

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 2016



October 2016

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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) 2016 (July 1, 2015 through June 30, 2016). 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 2016 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 \$227 million plus forgiveness of \$32 million to 213 Public Water System (PWS) projects beginning with the program's inception through June 30, 2016. The Federal Fiscal Year (FFY) 2016 EPA capitalization grant was awarded in August, and thus will be discussed in next year's annual report.

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, 2016, the EPA had awarded \$166 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$166 million required the State to contribute approximately \$33 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 or through cash from the Special Reserve Accounts of retired bonds or from transfers out of the Drinking Water Administration Fund.

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, 2016. 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 the following: 1) Balance Sheet; 2) Statement of Revenues, Expenses, and Changes in Net Position; 3) Statement of Cash Flows; and 4) Notes to the Financial Statements.

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

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

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

ANALYSIS OF BALANCES AND TRANSACTIONS – ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2016, the net position of the Program increased by 6.8%. The cash balance increased significantly due to several large loan payoffs, amounting of over \$17 million for the fiscal year. This also accounted for a decrease of 5.6% in loan interest and administration fees. Non-operating revenue decreased significantly due to the defeasance of long-term bonds during fiscal year 2015, as interest was no longer earned on those investments.

NET POSITION			
	2016	2015	% Change
	\$		
Current Assets	88,583,922	\$ 71,233,932	24.4%
Non-current Assets	85,924,715	92,145,789	-6.8%
Total Assets	174,508,637	163,379,721	6.8%
Current Liabilities	591,863	558,974	5.9%
Non-current Liabilities	26,361	22,619	16.6%
Total Liabilities	618,224	581,593	6.3%
Net Position:			
Net Investment in Capital Assets	173,100	97,551	77.5%
Unrestricted	173,717,313	162,700,577	6.8%
Total Net Position	\$ 173,890,413	\$ 162,798,128	6.8%

CHANGES IN NET POSITION

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Loan Fees Administration	\$ 930,075	\$ 991,220	-6.2%
Interest on Loans	2,224,923	2,351,966	-5.4%
Total Operating Revenues	3,154,998	3,343,186	-5.6%
Administration & Set-Asides	2,621,611	2,824,458	-7.2%
Loan Forgiveness	1,989,105	1,864,223	6.7%
Total Operating Expenses	4,610,716	4,688,681	-1.7%
Operating Income (Loss)	(1,455,716)	(1,345,495)	8.2%
Federal Grants	10,869,166	14,267,341	-23.8%
Interest Revenue	1,682,944	1,608,595	4.6%
Bond Expenses	(4,109)	(364,744)	-98.9%
Total Non-Operating Revenue (Expense)	12,548,001	15,511,192	-19.1%
Change in Net Position	11,092,285	14,165,697	-21.7%
Beginning Net Position July 1	162,798,128	148,632,431	9.5%
Ending Net Position June 30	\$ 173,890,413	\$ 162,798,128	6.8%

Federal funds will vary each year depending on the size of each draw, the timing of each draw, the number of communities applying for loans, and the number of loans successfully processed.

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

ECONOMIC OUTLOOK

The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to collect the amount of user fees needed to fund infrastructure requirements.

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

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

The software was developed to address the data management needs for all of the steps in the SRF management process, including priority list development, facility location and identification, engineering review and milestone tracking, inspections, contacts, contract approvals and change orders, detailed payment request processing, project spending forecasts, encumbrances, funding draws and transfers, disbursements, amortization schedule creation and management, billing, repayment processing, fund deposits, and tracking of repaid funds by their original source. The software also contains a general

ledger that each state can customize to match existing accounting systems and create trial balances, financial statements, and related financial schedules.

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

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

Nebraska's State Revolving Fund programs have begun implementation of the LGTS system. During fiscal year 2014, planning of the implementation phases, business rules, and hardware/software installations occurred. During fiscal year 2015 and 2016, the system was used concurrently with existing systems, to create a basis for reliability and consistency. Once dependable, reconciled results will be established, the existing internal system will be discontinued, and LGTS will become the sole system for use within the SRF program alongside the State Accounting system.

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL
QUALITY
DRINKING WATER STATE REVOLVING FUND
PROGRAM

B. UNAUDITED BALANCE SHEET
Fiscal Year Ended June 30, 2016

Enterprise Fund

ASSETS	
CURRENT ASSETS	
Cash & Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 82,389,396
Due from Federal Government	562,647
Interest Receivable	157,684
Loans Receivable (Note 3)	5,474,194
TOTAL CURRENT ASSETS	88,583,922
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	85,751,614
Capital Assets, Net (Note 4)	173,100
TOTAL NON-CURRENT ASSETS	85,924,715
TOTAL ASSETS	\$ 174,508,637
 LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable & Accrued Liabilities	165,540
Due to Grant Recipients (Note 1)	423,716
Compensated Absences (Note 6)	2,607
TOTAL CURRENT LIABILITIES	591,863
NON-CURRENT LIABILITIES	
Compensated Absences (Note 6)	26,361
TOTAL NON-CURRENT LIABILITIES	26,361
TOTAL LIABILITIES	\$ 618,224
 NET POSITION	
Net Investment in Capital Assets	173,100
Unrestricted	173,717,313
TOTAL NET POSITION	173,890,413
TOTAL LIABILITIES AND NET POSITION	\$ 174,508,637

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
C. UNAUDITED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year Ended June 30, 2016

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	\$ 930,075
Interest on Loans	2,224,923
TOTAL OPERATING REVENUES	\$ 3,154,998
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	521,795
15% Source Water Assessment Program (Note 10)	767,110
2% Technical Assistance to Small Systems (Note 10)	116,667
10% Public Water Supply System (Note 10)	1,216,039
Loan Forgiveness (Note 10)	1,989,105
TOTAL OPERATING EXPENSES	\$ 4,610,716
OPERATING LOSS	(1,455,716)
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	10,812,556
Capital Contributions - Federal Grants - Capital Assets	56,611
Interest on Fund Balance - Trustee	-
Interest on Fund Balance - State Operating Investment Pool (Note 9)	1,682,944
Interest Expense - State Match Bonds	-
Interest Expense on Bonds Payable (Short-Term)	-
Cost of Bond Issuance	(4,109)
TOTAL NONOPERATING REVENUE (EXPENSE)	12,548,001
CHANGE IN NET POSITION	11,092,285
TOTAL NET POSITION, BEGINNING OF YEAR AS RESTATED	162,798,128
TOTAL NET POSITION, END OF YEAR	\$ 173,890,413

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

D. UNAUDITED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 18,615,445
Payments to Borrowers	(8,479,621)
Payments for Administration	(585,765)
Payments for 15% Source Water Assessment Program	(734,739)
Payments for 2% Technical Assistance to Small Systems	(131,250)
Payments for 10% Public Water Supply System	(1,299,168)
Payments for Loan Forgiveness	(1,823,602)
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES	\$ 5,561,302
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received From the Environmental Protection Agency	10,714,570
Receipts from Bond Issue (Short-Term)	1,035,855
Repayment of Bond (Short-Term)	(1,035,855)
Payment for Bond Issuance Costs (Short-Term)	(4,109)
Bond Principal Payments (Long-Term)	-
Bond Interest Payments (Long-Term)	-
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	10,710,461
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital Contributions	56,611
Purchase of Capital Assets	(75,548)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(18,938)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	1,623,354
Sale of Investments Held by the Trustee	-
Purchase of Investments Held by the Trustee	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,623,354

E. NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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 (Trustee) for the State match bond accounts.

B. Reporting Entity

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

These financial statements present the Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

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

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

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

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

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

D. Measurement Focus, Basis of Accounting

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

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

E. Cash and Cash Equivalents

Cash and Cash Equivalents – Cash and cash equivalents consist of cash in the State Treasury. This includes cash in bank accounts and petty cash, short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2016, approximates market. Banks pledge collateral, as required by law to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced. After the final disbursement has been made, the amortization schedule identified in the loan agreement is adjusted for the actual amounts disbursed. The interest rates on loans range from 2.0% to 4.0%.

and the terms on outstanding loans range from 13 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, 2016, which is collectible in fiscal year 2017. Loans receivable that were paid in full, prior to their due date, as of August 31, 2016, were included in the current loans receivable balance as opposed to the long-term loans receivable balances.

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

G. Use of Estimates

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

H. Compensated Absences

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

Program employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55 – or a younger age, if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

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

I. Due to Grant Recipients

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

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

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

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

J. Operating Revenues and Expenses

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

K. Capital Assets

The Program has only one capital asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Agency began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and is anticipating this phase to be completed during the fiscal year ended June 30, 2017. The LGTS software is considered an intangible capital asset, and the Agency follows the capitalization policy set forth by the State of Nebraska for intangible capital assets, which requires capitalization of such assets when the cost of such asset is in excess of \$100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the developmental phase and the software being put into production, and it will be computed using the straight-line method over the estimated useful life of the asset.

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, 2016. 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 2016. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee – At June 30, 2016, there were no Program funds held by the Trustee, as all outstanding bonds were paid off.

3. **Loans Receivable**

As of June 30, 2016, the Program had 126 outstanding community loans that totaled \$91,225,808.59. The outstanding balances of the 10 communities with the largest loan balances, which represent 54.9% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>
Lincoln	\$ 13,554,550
McCook	7,945,004
Gering	5,761,379
Sidney	4,732,932
MUD - Omaha	4,556,314
Auburn	3,947,977
Alliance	3,118,808
Blair	2,622,627
Waverly	1,968,959
Hickman	1,872,626
TOTAL	\$ 50,081,176

4. **Capital Assets**

The Drinking Water SRF capital assets activity for the year ended June 30, 2016, was:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Software Development In-Progress Loans and Grants Tracking System (LGTS)	\$ 97,551	\$ 75,549	\$ -	\$ 173,100

5. **Bonds Payable**

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

Short-Term Bonds – The proceeds of short-term revenue bonds are sometimes used by the Agency to provide the 20% match requirements for the Agency’s Federal Capitalization Grants. Interest revenue from Program loans is pledged to pay off the bonds. During the fiscal year, the Program utilized administrative cash funds to meet their match requirements for the 2015 DWSRF grant. There was no bond activity during fiscal year 2016, nor was there an ending balance at fiscal year-end.

6. **Non-current Liabilities**

Changes in non-current liabilities for the year ended June 30, 2016, 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	\$ 24,856	\$ 4,113	\$ -	\$ 28,969	\$ 2,607

7. Capital Contributions

Included in the net position is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2016. 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, 2016, and may have been drawn over multiple years.

Federal Fiscal Year	Available	Grant Amount	Amount Drawn	Balance
1997		\$ 12,824,000	\$ 12,824,000	\$ -
1998		7,121,300	7,121,300	-
1999		7,463,800	7,463,800	-
2000		7,757,000	7,757,000	-
2001		7,789,126	7,789,126	-
2002		8,052,500	8,052,500	-
2003		8,004,100	8,004,100	-
2004		8,303,100	8,303,100	-
2005		8,285,500	8,285,500	-
2006		8,229,300	8,229,300	-
2007		8,229,000	8,229,000	-
2008		8,146,000	8,146,000	-
2009 - ARRA		19,500,000	19,500,000	-
2009		8,146,000	8,146,000	-
2010		13,573,000	13,573,000	-
2011		9,418,000	9,418,000	-
2012		8,695,558	8,695,558	-
2013		8,533,907	8,411,570	122,337
2014		8,845,000	8,569,915	275,085
2015		8,681,560	2,843,390	5,838,170
TOTAL		\$ 185,597,751	\$179,362,159	\$ 6,235,592

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

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2016, was \$75,549. The total amount utilized for LGTS as of June 30, 2016, was \$173,100. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program which also utilizes the LGTS software.

8. Loan Fees Administration

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

9. **Interest on Fund Balance – State Operating Investment Pool**

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

10. **Operating Expenses**

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

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

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

All set-asides are required to be Federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these categories:

Administrative Costs from Fees

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

15% Source Water Assessment Program

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

- Provide assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- Support the establishment and implementation of wellhead protection programs; and
- Provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A State may use up to 2% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority and use it for the same activities in later years. A State may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A State may use up to 10% of the grant funds awarded to do the following:

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

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments the State subsidized to communities meeting the definition of “disadvantaged” or which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year’s capitalization grant cannot exceed 50% of the amount of the capitalization grant for that year.

11. State Employees Retirement Plan (Plan)

The single-employer Plan became effective by statute on January 1, 1964. The Public Employees Retirement Board was created in 1971 to administer the Plan. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected either to continue participation in the defined contribution option or to begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan are established and can only be amended by the Nebraska Legislature.

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

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

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

Defined Contribution Option – Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have

several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

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

For the fiscal year ended June 30, 2016, employees contributed \$13,289, and the Agency contributed \$20,732. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

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

12. **Contingencies and Commitments**

Risk Management – The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Agency, as part of the primary government for the State, participates in the State's risk management program. 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 the following:

- A. Motor vehicle liability, which is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Crime coverage, with a limit of \$31,000,000 for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- C. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10,000,000 for 120 days and, after 120 days, if the property has not been reported, the limit decreases to \$5,000,000. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

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

assessments, as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Program's financial statements.

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

II. PROGRAM INFORMATION SECTION

A. *Fund Activities*

1. Loan and Investment Status

The fund has a loan portfolio containing \$221,126,614 in total loan allocations, of which \$102,732,765 was repaid; \$91,225,419 is outstanding, leaving \$27,168,430 still to be disbursed. Details on the Fund portfolio of 213 loans are in Attachment 1. The blended interest rate on the State Fiscal Year (SFY) 2016 outstanding loan balance is 2.293%. The result was an overall 9.4 basis point decrease from SFY 2015. The blended rate will decrease again over the next year.

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

This past SFY, the DWSRF entered into fourteen binding commitments in order to provide financial assistance to PWS projects totaling \$26,432,823. Of that amount, disadvantaged communities received \$4,124,614 in forgiveness funding. With that amount, all of the minimum grant conditions for additional subsidization (e.g., principal forgiveness) and the Green Project Reserve (GPR) (e.g., water meters), for all open capitalization grants have been met.

Attachment 2 provides information showing the loan agreements entered into during SFY 2016 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 \$193,211,377. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of \$270,611,614 or 140.06% of the required amount.

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

The program is now utilizing the Administration cash fund for most of the salaries and associated expenses of personnel administering the DWSRF program and is not presently exercising this set-aside option for staffing. However, funds were reserved from the current 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, which is now fully online.

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 the 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 2016 NDHHS-DPH had contracts with one assistance provider:

- Nebraska Rural Water Association (NeRWA)

This organization helped small systems:

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

- NeRWA was committed to conducting an average of 20 contacts each month, with a minimum of 15 on-site and 5 in-office contacts.
- Provide instruction sessions to Board/Council members and Owners of community water systems regarding the technical, managerial, and financial aspects of running a sustainable water system.

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

A. Engineering & Field Services and Monitoring & Compliance Staff

This set-aside was used to fund salaries, benefits, and all other related operating expenses (e.g., travel, etc.) for approximately 14 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.

B. Capacity Development

From July 1, 2015 through June 30, 2016, NeRWA, under the technical, financial and managerial contract, made system visits with an average of twenty (20) contacts per month for a total of two-hundred forty-one (241) contacts involving two-hundred eighteen (218) PWSs. Included in the contacts are eight (8) board/council training sessions that NeRWA presented.

In SFY 2016, Field Services representatives performed 443 Routine Sanitary Surveys (RSS) and 45 Follow-up surveys. There were 195 Community, 52 Non-Transient, and 196 Transient Non-Community Routine Sanitary Surveys performed. The numbers of deficiencies found are as follows:

Community Systems:

Significant: 495 Minor: 227

A total of 722 deficiencies. Average of 3.7 significant or minor deficiencies per system.

Non-Transient Non-Community Systems (NTNC):

Significant: 91 Minor: 28

A total of 119 deficiencies. Average of 2.3 significant or minor deficiency per system.

Transient Non-Community Systems:

Significant: 304 Minor: 97

A total of 401 deficiencies. Average of 2 significant or minor deficiencies per system.

Of the 1,242 significant and minor deficiencies found in SFY 2016 there are only 45 left to still be corrected. The vast majority of these are record keeping related deficiencies. This means that for SFY 2016 Nebraska had 96% deficiency correction rate. There are 29 PWSs that had a RSS in SFY 2016 that still have at least one outstanding deficiency. Ninety-four 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 2017. 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 five years for Transient Non-Community systems.

With a recent change in strategy, the program will still keep track of deficiencies but put more emphasis on getting the number of violations to decrease with a proactive response to systems with problems. The goal of this strategy is to lower the number of violations so that the water systems in Nebraska can meet compliance standards and achieve long term sustainability.

C. Operator Certification

During SFY 2016, NDHHS-DPH held ten water operator training courses applicable to various grade levels. Water operator licenses were issued to 142 individuals in SFY 2016. The number issued per license grade is as follows:

- Grade I - 2 license
- Grade II - 2 licenses
- Grade III - 26 licenses
- Grade IV - 112 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 \$1,234,500 from the FFY 2015 Capitalization Grant to administer Nebraska's Public Water Supply Program during SFY 2016. That amount included \$350,000 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).
- Cash contributions in the form of income from fees received to perform analyses at the State laboratory for PWSs (fee amount received during SFY 2016 was \$1,485,266), for review of plans (\$179,558 received in SFY 2016), and for operator licenses (\$368,894 received in SFY 2016).

The total of State funding available for one-to-one match to the \$1,234,500 was \$2,539,745.

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 was funded with Clean Water Act Section 319 Nonpoint Source Pollution 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 September 11, 2016, a cumulative 110 PWSs have completed state-approved wellhead protection plans and three plans are awaiting final approval (under Neb. Rev. Stat. 46-1501-1509, 1998).

Beginning with FY 2003, approximately \$200,000 of the 15% DWSRF set-aside had been used annually for Source Water Protection projects. This amount was reduced to \$100,000 beginning in FFY 2007. The communities of Auburn, Fairbury, and Ohioa have been selected to receive Source Water Grants from the 2016 Capitalization Grant. The total amount allotted came to \$124,710, the additional \$24,710 coming from previous projects where final costs came in under budget. Activities that will be funded this year include: developing Drinking Water Protection Management Plans (DWPMP) and Wellhead Protection Plans (WHP), properly decommissioning abandoned wells, and public education and outreach.

DWSRF 15% set-aside unobligated personnel funds will be spent on a vadose sampling project. Products of the proposed project include: an information interface for accessing nitrate results and sharing information, standardized protocol for collecting and analyzing cores used in estimating nitrate occurrences and transportation potential, and laboratory analysis which would permit identification of nitrate transport and potentially attenuation rates. In addition to the sampling project, a temporary full time employee has been hired to assist the WHP program to run the groundwater model to delineate WHP areas and update Nebraska WHP Maps.

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. Six grant awards were made in SFY 2016 totaling \$90,000, 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 121 communities totaling \$1,540,320.

D. Security Grants

Letters were sent to all community PWSs with populations less than 10,000 notifying them of the security grant program in SFY 2016. 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 security improvements being made to public water systems being installed:

• Alarms/Cameras	5
• Backup Power	5
• Buildings/Doors/etc.	3
• Fencing/Lighting	10
• Mapping	10
Total	34

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 26 presentations involving asset management, capacity development, and drought mitigation for PWSs.

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, 2016 the ACH draw was \$151,707,406 and the match disbursement was \$33,365,381 for an ACH draw as a percentage of grant plus match disbursements ratio of 81.97%. This ratio indicates that the state has overmatched on this requirement.

For SFY 2016, 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 twelve PWS projects during SFY 2016. It was determined that no Environmental Impact Statements were necessary; instead Environmental Assessments were prepared and Finding of No Significant Impact Statements were issued for five projects: Riverdale, Sarpy County SID No. 29, Sidney, Springfield, and Weeping Water. Categorical Exclusions were issued for seven projects: Clarkson, Edgar, Gretna, Kearney, Plymouth, Trenton, and Washington County RWD No. 2.

FFATA entries were made for Central City, Garland, Grant, Hartington, Osmond, and Weeping Water for the FFY 14 grant, and for Falls City and Oshkosh for the FFY 15 grant. One more entry will be made to meet the FFY 14 grant requirement, and then several large loans are planned to satisfy the FFATA requirements for the upcoming FFY 16 grant. Also, project signs were provided to both of the FFY 15 grant identified projects.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2016 Intended Use Plan. The short-term goals support the implementation of the program. The DWSRF has made significant progress on most of its short-term goals. The DWSRF program continues to work with the systems identified by providing both technical and financial project support. The goals are listed and discussed as follows:

1. *Continue to attract customers to the program with low interest rates.*

This goal was accomplished across the board for all projects funded in SFY 2016. Program interest 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.*

There were fourteen loans closed during SFY 2016. Six of the loans were for high priority status projects. One of the loans addressed an enforcement action issued by NDHHS-DPH: Osmond - 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 loans closed in SFY 2016 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 numbers 2 and 3 above for Central City, Edgar, Osmond, Phillips, Pleasanton, and Weeping Water. Administrative Orders have set deadlines agreed to between the communities and the NDHHS-DPH.

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

See responses to number 3. Further, NDHHS-DPH routinely provides technical, financial, and managerial assistance to PWSs. The NeRWA, as the 2% Team Contractor, provided technical, financial, and managerial assistance to small systems throughout Nebraska.

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

See response to number 4 above for Central City, Edgar, Osmond, Phillips, Pleasanton, and Weeping Water. While only Osmond's project will resolve an A.O., the majority of the remaining infrastructure projects were improvements to public water systems that had increasing contaminant levels monitored in their water supplies, albeit below current EPA maximum contaminant levels. These proactive projects were thus considered critical in that they ensure the communities are able to provide a safe supply of drinking water on a continuous basis, avoiding any future exceedances of a drinking water standard. Lastly, Edgar's water meter installation is an initial project phase, which may be followed by a water treatment plant phase to ultimately return the system into compliance.

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 2016 were with populations under 10,000, so the DWSRF met 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.

9. Will evaluate whether to amend the ranking system criteria to address impacts to PWSs from extreme weather events (i.e., drought, flood, etc.).

Over the past several years, the State has experienced a significant drought, as well as a major flooding event along the Missouri River. However, existing PWS infrastructure was readily operated during those events, with only a few exceptions. For those communities, the subsequent projects were either funded or planned through commercial credit, federal emergency funds, or in the case of Falls City's new horizontal collector well, through the DWSRF.

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY 2016 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 the program has tried to provide the lowest reasonable interest rate loans for projects that address human health problems. 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. It is further anticipated that a partial cash match will be made for the next capitalization grant, which would further cement the long-term financial footing of the fund.

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

An infrastructure needs survey is continuously updated so that program resources and funds may address the most significant public health and compliance issues facing the eligible PWSs. The survey is started in October and completed by December 31st annually. The program continues to incorporate the most appropriate readiness to proceed criteria to match PWS funding needs in the State. Records of systems user charges are compiled by the NeRWA and reviewed periodically for comparison to the program's established affordability criteria, based off of median household incomes.

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

In SFY 2016, six of the fourteen 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, the Interagency Preliminary Engineering Report (PER) Template developed by the Federal agency leads of Nebraska's water infrastructure funding programs was adopted by the WWAC.

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

Nebraska's DWSRF program provides low-interest loans and partial loan forgiveness to qualifying applicants each fiscal year. The program's ability to provide affordable financing increased in FFY 16, when the mandatory subsidization requirement of the capitalization grants increased from 20% to 30%. 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.

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

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 projects to allow systems with the greatest public health needs to have first chance at program funding.

C. Funded Program

The Annual Report reflects the results and changes from the SFY 2016 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 4, 2015. More detailed project information for the loans closed in SFY 2016 is provided in Attachment 4, followed by a brief synopsis of the SFY 2016 Funding and Planning List communities that closed loans during the fiscal year.

NDHHS-DPH works with all members of the WWAC to identify projects that are potentially ready to be funded and moving forward during the SFY. This approach was helpful for those systems that indicated that they were anticipating moving forward with a project during the state fiscal year. 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 2016 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Aurora, City of – Will fund their new well and water main project through the DWSRF in SFY 2017.

Davey, Village of – This project has been placed on hold due to continued monitoring of Nitrates levels below the MCL.

Ewing, Village of – This project has been placed on hold due to inadequate interest.

Fairbury, City of – This project has been placed on hold due to continued monitoring of nitrates levels below the MCL.

Harbine, Village of – Choose to privately fund their new well project.

Hastings, City of – They are evaluating whether to privately fund their Aquifer Storage Restoration project and/or rely on CW/DWSRF assistance in SFY 2017.

Kenesaw, Village of – Will fund their new water meter project through the DWSRF in SFY 2017.

Kilgore, Village of – This project has been placed on hold due to inadequate interest.

Laurel, City of – Due to decreasing selenium levels in their well, this project may not be constructed. If it is, it will be funded through the DWSRF.

Lodgepole, Village of – Their water meter replacement project was put on hold, as they have developed a Preliminary Engineering Report to address a recently issued arsenic Administrative Order and that project may be funded through the USDA-RD.

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

Springfield, City of – Will fund their new well project through the DWSRF in SFY 2017.

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.

Planning List Projects

Benedict, Village of – Completed a Preliminary Engineering Report, is considering being part of regional water system.

Brainard, Village of – Completed a Preliminary Engineering Report, is considering being part of a rural water system.

Campbell, Village of – Received a planning grant for the development of a test hole.

Cedar Bluffs, Village of – Was awarded a grant to develop a Preliminary Engineering Report.

Clay Center, City of – Received a planning grant for the development of a Preliminary Engineering Report.

Fullerton, City of – Is planning to construct a new supply well(s), which may be funded by the DWSRF.

Hubbell, Village of – Completed a successful test hole, is planning to construct a new supply well, which will be funded by USDA-RD/CDBG.

Lebanon, Village of – Received a planning grant for the development of a Preliminary Engineering Report.

Mead, Village of – Is planning to construct a water treatment plant, which will be funded by the DWSRF in SFY 2016..

Milford, City of – Is planning to construct a new water supply well, which will be funded by the DWSRF in SFY 2016.

Oakdale, Village of – Has submitted an engineering report to the WWAC for the construction of a backup well.

Ohiowa, Village of – Is planning to construct a replacement supply well, which will be funded by USDA-RD

Oxford, Village of – Received a planning grant for the development of a Preliminary Engineering Report.

Polk, Village of – Is planning to construct a replacement water tower, which will be funded by USDA-RD.

Terrytown, City of – Is planning to interconnect to the City of Gering, a project that will be funded by the DWSRF/USDA-RD/CDBG.

Haigler and Humboldt have completed their projects through DWSRF funding, and were brought back into compliance with their enforcement actions previously issued by NDHHS-DPH.

The communities of Benedict, Dwight, Fullerton, Pilger, Springfield, and Upland 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 developing ranking criteria to provide forgiveness assistance to small disadvantaged communities planning to replace aged or deteriorated distribution systems.

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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	40,584.78	197,769.22	2.00	395,538.44		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	35,716.20	115,161.80	2.00	230,323.60		
D311496	Alliance	ARRA	F	3,513,951.00	835,861.84	2,678,089.16	2.00	5,356,178.32		
D311511	Alliance		F	595,224.00	154,504.74	440,719.26	2.00	881,438.52		
D311393	Ansley		P	595,260.00	595,260.00	0.00	3.00	0.00		
D311225	Arapahoe		P	450,000.00	450,000.00	0.00	2.50	0.00		
D311003	Arlington		P	1,592,435.00	1,592,435.00	0.00	3.47	0.00		
D311219	Auburn		P	630,784.00	630,784.00	0.00	3.53	0.00		
D311499	Auburn	ARRA	F	4,501,502.00	553,525.38	3,947,976.62	2.30	9,080,346.23		
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	F	198,122.00	29,643.31	168,478.69	2.00	336,957.38		
D311226	Bancroft		P	591,000.00	591,000.00	0.00	2.50	0.00		
D311227	Barneston		P	32,794.00	32,794.00	0.00	2.50	0.00		
D311091	Bassett		F	138,342.00	78,191.76	60,150.24	2.50	150,375.60		
D311005	Bayard	ARRA	F	112,065.00	31,620.21	80,444.79	2.00	160,889.58		
D311567	Bayard		F	188,676.00	10,906.01	177,769.99	2.00	355,539.98		
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	1,467,304.69	1,809,342.31	4.00	7,237,369.24		
D311389	Bee		F	247,311.00	10,650.20	236,660.80	2.00	473,321.60		
D311516	Bellwood	ARRA	F	142,924.00	30,247.38	112,676.62	2.00	225,353.24		
D311073	Benedict		F	455,000.00	62,091.04	392,908.96	3.42	1,343,748.64		
D311142	Bennet		P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet	ARRA	F	612,697.00	144,966.68	467,730.32	2.00	935,460.64		
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		P	6,815,700.00	6,815,700.00	0.00	3.03	0.00		
D311530	Blair	GP10	F	2,794,587.00	171,960.30	2,622,626.70	2.25	5,900,910.08		
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		
D311288	Bradshaw	ARRA	P	175,669.00	175,669.00	0.00	2.00	0.00		
D311081	Brady		F	365,547.00	132,361.61	233,185.39	3.30	769,511.79		
D311404	Bridgeport	ARRA	P	775,068.00	775,068.00	0.00	2.00	0.00		
D311529	Bridgeport		P	833,728.00	833,728.00	0.00	2.14	0.00		
D311405	Bristow		F	80,000.00	52,576.69	27,423.31	2.75	75,414.10		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	407,457.08	1,414,764.92	2.62	3,706,684.09		
D311009	Bruning		P	483,571.00	483,571.00	0.00	3.03	0.00		

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D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	211,535.17	7,964.83	3.00	23,894.49		
D311561	Brunswick		F	81,658.00	8,673.95	72,984.05	2.00	145,968.10		
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo			536,560.00	34,436.44	253,009.56	2.25	569,271.51		
D311456	Carroll	GP10	F	180,380.00	23,666.31	156,713.69	2.00	313,427.38		
D311159	Cedar-Knox (Lewis & Clark)		P	249,000.00	249,000.00	0.00	3.00	0.00		
D311524	Cedar-Knox (Lewis & Clark)		P	67,112.00	67,112.00	0.00	2.00	0.00		
D311012	Central City		F	387,572.00	202,282.51	185,289.49	2.75	509,546.10		
D311603	Central City		F	434,007.00	9,097.97	424,909.03	2.00	849,818.06		
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	117,290.45	187,709.55	2.50	469,273.88		
D311509	Clarks		F	516,836.00	97,987.13	418,848.87	2.00	837,697.74		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	GP10	F	1,740,472.00	94,597.93	1,645,874.07	2.55	4,196,978.88		
D311234	Cozad		P	1,142,471.00	1,142,471.00	0.00	2.75	0.00		
D311149	Crawford		P	668,700.00	668,700.00	0.00	3.00	0.00		
D311557	Creighton		P	754,298.00	754,298.00	0.00	2.29	0.00		
D311017	Culbertson		F	236,862.00	157,120.98	79,741.02	3.00	239,223.06		
D311018	Cuming Co. RWD No. 1		F	643,981.00	391,291.72	252,689.28	3.08	778,282.98		
D311457	Cuming Co. RWD No. 1		F	323,435.00	95,930.66	227,504.34	2.75	625,636.94		
D311506	Dalton	ARRA	F	197,024.00	46,617.15	150,406.85	2.00	300,813.70		
D311167	Davenport		P	440,000.00	440,000.00	0.00	3.40	0.00		
D311169	David City		F	626,435.00	381,856.24	244,578.76	2.51	613,892.69		
D311569	Daykin		F	450,773.00	19,112.49	431,660.51	2.00	863,321.02		
D311555	Denton		F	522,208.00	67,815.60	454,392.40	2.00	908,784.80		
D311102	DeWitt		P	650,000.00	650,000.00	0.00	2.50	0.00		
D311238	Dodge		F	56,156.00	33,508.51	22,647.49	2.51	56,845.20		
D311240	Dorchester	GP10	F	1,444,796.00	174,351.20	1,270,444.80	2.00	2,540,889.60		
D311021	Duncan		P	465,000.00	465,000.00	0.00	4.30	0.00		
D311609	Edgar	GP		218,325.00	0.00	12,262.00	2.00	24,524.00		
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		
D311571	Elgin			1,114,500.00	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	317,872.14	376,563.86	2.50	941,409.65		
D311176	Fairmont		F	183,582.00	58,474.48	125,107.52	3.54	442,880.62		
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00		
D311597	Falls City	FFATA		4,267,530.00	0.00	311,102.00	2.00	622,204.00		
D311536	Firth		F	326,301.00	77,457.12	248,843.88	2.00	497,687.76		
D311512	Friend	ARRA	F	208,508.00	54,688.37	153,819.63	2.00	307,639.26		
D311535	Fullerton		F	366,000.00	86,597.99	279,402.01	2.00	558,804.02		
D311575	Garland	FFATA		976,000.00	11,557.83	904,151.17	2.00	1,808,302.34		
D311026	Gering	BASE	F	445,110.00	84,608.22	360,501.78	3.24	1,168,025.77		
D311026	Gering AMD#1	ARRA	F	6,252,963.00	852,085.69	5,400,877.31	2.30	12,422,017.81		

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D311245	Giltner		P	795,462.00	795,462.00	0.00	3.26	0.00		
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00		
D311214	Grafton		P	207,998.00	207,998.00	0.00	3.00	0.00		
D311104	Grant		F	273,674.00	262,383.63	11,290.37	3.00	33,871.11		
D311595	Grant	FFATA		1,725,384.00	0.00	0.00	2.00	0.00		
D311467	Gresham		P	88,119.00	88,119.00	0.00	2.00	0.00		
D311028	Gurley		F	173,280.00	68,755.20	104,524.80	3.74	390,922.75		
D311566	Haigler		F	117,433.00	4,991.42	112,441.58	2.00	224,883.16		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311552	Hartington	GP11		400,000.00	0.00	226,215.00	2.00	452,430.00		
D311547	Hay Springs		F	245,667.00	24,495.85	221,171.15	2.50	552,927.88		
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00		
D311521	Hickman		F	2,196,778.00	324,152.25	1,872,625.75	2.00	3,745,251.50		
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00		
D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00		
D311544	Holstein	GP10	F	216,097.00	36,895.99	179,201.01	2.00	358,402.02		
D311602	Holstein			104,000.00	0.00	93,163.00	2.00	186,326.00		
D311033	Hubbard		P	154,778.00	154,778.00	0.00	3.79	0.00		
D311109	Humboldt		F	1,896,065.00	129,713.42	1,766,351.58	2.30	4,062,608.63		
D311545	Humphrey		P	1,652,865.00	1,652,865.00	0.00	2.25	0.00		
D311067	Jackson		F	109,339.00	81,978.76	27,360.24	3.00	82,080.72		
D311034	Kearney		P	2,139,420.00	2,139,420.00	0.00	3.24	0.00		
D311282	Kearney		P	1,237,634.00	1,237,634.00	0.00	3.48	0.00		
D311398	Kearney		P	8,116,884.00	8,116,884.00	0.00	3.44	0.00		
D311540	Kearney		F	212,927.00	50,757.89	162,169.11	2.00	324,338.22		
D311589	Kearney	FFATA	F	301,029.00	12,906.57	288,122.43	2.00	576,244.86		
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00		
D311184	Kimball		P	750,000.00	750,000.00	0.00	2.52	0.00		
D311504	Laurel	ARRA	F	357,266.00	83,371.76	273,894.24	2.00	547,788.48		
D311564	Leigh		F	257,268.00	21,902.49	235,365.51	2.00	470,731.02		
D311548	Lincoln	U/FFATA	F	14,977,829.00	1,423,279.33	13,554,549.67	2.25	30,497,736.76		
D311570	Lindsay	GP11	F	487,487.00	19,451.19	468,035.81	2.00	936,071.62		
D311188	Louisville		F	843,275.00	299,730.77	543,544.23	3.50	1,902,404.81		
D311562	Loup City	GP10	F	149,137.00	16,045.40	133,091.60	2.00	266,183.20		
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		
D311600	Maxwell		F	56,488.00	5,605.18	50,882.82	2.00	101,765.64		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		F	9,922,000.00	3,187,520.72	6,734,479.28	2.80	18,856,541.98		
D311560	McCook	FFATA	F	1,320,072.00	109,547.38	1,210,524.62	2.00	2,421,049.24		
D311130	Metropolitan Utilities Distr.		F	755,593.00	754,679.84	913.16	3.00	2,739.48		
D311498	Metropolitan Utilities Distr.	U/ARRA	F	5,797,062.00	1,241,660.62	4,555,401.38	2.00	9,110,802.76		
D311256	Niobrara		F	175,000.00	93,191.04	81,808.96	3.00	245,426.88		
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	36,970.27	119,312.73	2.00	238,625.46		
D311565	North Loup	FFATA		1,364,805.00	25,430.04	1,266,067.96	2.00	2,532,135.92		

ATTACHMENT 1
DWSRF LOAN STATUS AS OF 6/30/2016

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PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311042	North Platte		P	3,077,844.00	3,077,844.00	0.00	3.36	0.00		
D311322	North Platte		P	6,070,005.00	6,070,005.00	0.00	3.72	0.00		
D311078	Oakland		P	400,000.00	400,000.00	0.00	3.00	0.00		
D311503	Oakland		F	104,883.00	19,979.65	84,903.35	2.00	169,806.70		
D311138	Odell		F	103,293.00	62,868.09	40,424.91	3.03	122,487.48		
D311044	Ogallala	FFATA		2,175,295.00	0.00	1,358,876.00	2.00	2,717,752.00		
D311500	Oscelola	ARRA	F	270,772.00	64,066.40	206,705.60	2.00	413,411.20		
D311533	Oscelola		F	938,713.00	138,662.30	800,050.70	2.25	1,800,114.08		
D311605	Oshkosh	FFATA		3,018,750.00	0.00	169,639.00	2.00	339,278.00		
D311585	Osmond	FFATA		621,790.00	0.00	213,524.00	2.00	427,048.00		
D311591	Overton		F	624,713.00	14,018.38	610,694.62	2.00	1,221,389.24		
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	468,599.86	560,135.14	2.50	1,400,337.85		
D311505	Phillips	ARRA	F	166,643.00	39,428.80	127,214.20	2.00	254,428.40		
D311581	Phillips			364,000.00	0.00	340,845.00	2.00	681,690.00		
D311543	Pickrell		F	182,702.00	20,140.82	162,561.18	2.00	325,122.36		
D311532	Platte Center		F	505,371.00	83,719.01	421,651.99	2.25	948,716.98		
D311051	Plattsmouth		F	1,491,112.00	1,324,591.37	166,520.63	3.00	499,561.89		
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	122,675.50	750,281.50	2.30	1,725,647.45		
D311513	Pleasant Dale	ARRA	F	106,126.00	27,516.81	78,609.19	2.00	157,218.38		
D311596	Pleasanton			365,640.00	0.00	40,909.00	2.00	81,818.00		
D311525	Ravenna	GP11/FFATA	P	2,162,228.00	2,162,228.00	0.00	2.00	0.00		
D311438	Republican City		F	1,057,060.00	978,920.56	78,139.44	3.00	234,418.32		
D311542	Rogers		F	77,280.00	14,743.16	62,536.84	2.00	125,073.68		
D311559	St. Helena		F	233,025.00	24,692.57	208,332.43	2.00	416,664.86		
D311218	St. Paul	ARRA	P	606,000.00	606,000.00	0.00	2.38	0.00		
D311606	Sarpy Cnty SID #29			670,000.00	0.00	454,568.00	2.00	909,136.00		
D311053	Schuyler	ARRA	F	1,560,451.00	334,167.88	1,226,283.12	2.00	2,452,566.24		
D311334	Scotia		P	467,415.00	467,415.00	0.00	2.57	0.00		
D311573	Scribner	FFATA		2,800,000.00	2,345.44	227,303.56	2.00	454,607.12		
D311501	Shelby	ARRA	F	177,707.00	38,027.44	139,679.56	2.00	279,359.12		
D311537	Shelby		F	1,023,041.00	515,909.68	507,131.32	2.00	1,014,262.64		
D311514	Shelton	GP11/FFATA	F	895,481.00	113,690.36	781,790.64	2.00	1,563,581.28		
D311056	Sidney		P	1,156,000.00	1,156,000.00	0.00	3.00	0.00		
D311351	Sidney		F	7,975,000.00	4,763,813.19	3,211,186.81	2.52	8,092,190.76		
D311604	Sidney			7,400,000.00	0.00	1,521,745.00	2.00	3,043,490.00		
D311057	So. Sioux City		F	267,732.00	226,890.75	40,841.25	3.00	122,523.75		
D311268	So. Sioux City		F	1,331,150.00	1,035,724.16	295,425.84	2.79	824,238.09		
D311584	So. Sioux City	FFATA		3,128,000.00	0.00	0.00	2.00	0.00		
D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		F	100,000.00	30,956.82	69,043.18	2.83	195,392.20		
D311058	Stanton		P	344,991.00	344,991.00	0.00	3.00	0.00		
D311059	Stanton Co. SID #1		F	353,805.00	178,277.55	175,527.45	4.00	702,109.80		

ATTACHMENT 1
DWSRF LOAN STATUS AS OF 6/30/2016

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PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311146	Stapleton		F	95,953.00	71,925.73	24,027.27	3.01	72,322.08		
D311060	Stratton		P	167,492.00	167,492.00	0.00	3.00	0.00		
D311336	Stratton		P	1,001,000.00	1,001,000.00	0.00	2.75	0.00		
D311539	Stromsburg		F	1,497,724.00	1,371,893.39	125,830.61	2.00	251,661.22		
D311502	Sutherland	ARRA	F	1,180,291.00	253,026.20	927,264.80	2.02	1,873,074.90		
D311089	Tecumseh		F	478,982.00	344,940.47	134,041.53	3.00	402,124.59		
D311077	Tekamah		F	1,247,818.00	690,746.47	557,071.53	3.00	1,671,214.59		
D311550	Terrytown	GP10		1,288,000.00	0.00	0.00	2.00	0.00		
D311590	Tobias		F	251,677.00	3,113.68	248,563.32	2.00	497,126.64		
D311068	Utica		P	458,699.00	458,699.00	0.00	3.00	0.00		
D311577	Utica			2,240,000.00	0.00	1,559,451.00	2.00	3,118,902.00		
D311126	Valentine		P	450,000.00	450,000.00	0.00	3.00	0.00		
D311593	Valley			581,834.00	23,241.00	524,848.00	2.00	1,049,696.00		
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	ARRA	F	299,274.00	87,466.88	211,807.12	2.00	423,614.24		
D311275	Wakefield		F	960,000.00	12,019.39	947,980.61	2.00	1,895,961.22		
D311071	Waterloo		F	297,522.00	275,651.78	21,870.22	3.36	73,483.94		
D311375	Wauneta		F	262,004.00	32,060.88	229,943.12	2.11	485,179.98		
D311276	Wausa		F	289,083.00	152,529.69	136,553.31	3.00	409,659.93		
D311527	Wausa		F	260,814.00	37,529.59	223,284.41	2.23	497,924.23		
D311582	Waverly	U/FFATA	F	2,056,127.00	87,167.67	1,968,959.33	2.00	3,937,918.66		
D311519	Wayne	ARRA	F	762,414.00	163,354.04	599,059.96	2.00	1,198,119.92		
D311608	Weeping Water	FFATA		560,000.00	0.00	58,867.00	2.00	117,734.00		
D311558	West Knox RWS-LNNRD	FFATA		886,054.00	17,849.18	395,549.82	2.50	988,874.55		
D311592	Wisner	FFATA		192,550.00	4,855.12	108,217.88	2.00	216,435.76		
D311583	Wood Lake			81,250.00	0.00	30,454.00	2.00	60,908.00		
D311066	Wood River		P	424,100.00	424,100.00	0.00	3.68	0.00		
D311497	Wymore	ARRA	F	1,489,829.00	352,132.52	1,137,696.48	2.00	2,275,392.96		
D311520	York	U/ARRA	F	2,334,605.00	549,605.02	1,784,999.98	2.00	3,569,999.96		
	TOTAL			220,891,614.00	102,732,375.41	91,225,808.59		209,175,483.75	2.293	2.293
PROJECT IDENTIFIER CODES:										
AMERICAN RECOVERY AND REINVESTMENT ACT		ARRA								
FEDERAL FUNDING ACCOUNTABILITY & TRANSPARENCY ACT		FFATA								
GREEN PROJECT 2010		GP10								
GREEN PROJECT 2011		GP11								
UNPLEGED		UNPL								
UNPLEGED ARRA		U/ARRA								
UNPLEGED FFATA		U/FFATA								
STATUS CODES:										
ACTIVE										
FINAL			F							
PAID OFF			P							

**ATTACHMENT 2
DWSRF BINDING COMMITMENTS**

**SFY 2016
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COMMUNITY NAME	PROJECT #D31	SMALL SYSTEM (<10,000)	FISCAL YEAR 2015				FISCAL YEAR 2016			
			1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
ADMINISTRATION										
KEARNEY	1589		427,000							
WISNER	1592	X	192,550							
SOUTH SIOUX CITY	1584			3,128,000						
BAYARD	1567	X		200,000						
TOBIAS	1590	X		600,000						
VALLEY	1593	X		775,000						
BAYARD AMD #1	1567	X			36,409					
GARLAND	1575	X			1,220,000					
MAXWELL	1600	X				60,000				
CORTLAND AMD #1	1546	X				127,053				
WOOD LAKE	1583	X				125,000				
HOLSTEIN	1602	X					130,000			
OVERTON	1591	X					715,000			
PHILLIPS	1581	X					560,000			
PLEASANTON	1596	X					400,000			
CENTRAL CITY	1603	X					723,400			
OSMOND	1585	X					956,600			
OSHKOSH	1605	X					4,025,000			
GRANT	1595	X					2,156,730			
LINDSAY AMD #1	1570	X						82,168		
SARPY COUNTY SID #29	1606	X						670,000		
UTICA AMD #1	1577	X						1,430,000		
FALLS CITY	1597	X						5,334,412		
NORTH LOUP AMD #1	1565	X							250,000	
SIDNEY	1604	X							7,500,000	
WEEPING WATER	1608	X							700,000	
EDGAR	1609	X							291,100	
HARTINGTON	1552	X								500,000
ELGIN AMD #1	1571	X								28,413
ADMINISTRATION										
(1) BINDING COMMITMENT TOTALS			619,550	4,703,000	1,256,409	312,053	9,666,730	7,516,580	8,741,100	528,413
(2) CUMULATIVE BINDNG COMMITMENTS			237,907,329	242,610,329	243,866,738	244,178,791	253,845,521	261,362,101	270,103,201	270,631,614
FY BINDING COMMITMENT TOTALS					FY2015:	6,891,012			FY2016:	26,452,823
(3) REQUIRED BINDING COMMITMENT*			7,719,680				8,577,600			8,679,460
(4) CUMULATIVE REQUIRED AMOUNT			175,954,317	175,954,317	175,954,317	175,954,317	184,531,917	184,531,917	184,531,917	193,211,377
(5) BC AS % OF REQ'D BC AMOUNT			135.21	137.88	138.60	138.77	137.56	141.64	146.37	140.07
*100% OF CAPITALIZATION GRANT LESS SET-ASIDE PLUS MATCH, LAGGED BY 1 YEAR FROM PAYMENT										

ATTACHMENT 3

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

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

JULY 1, 2014 THROUGH JUNE 30, 2015

**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 March 3, 2016

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. The Drinking Water State Revolving Fund Act is set out at Neb. Rev. Stat. §§ 71-5314 to 71-5327 (Reissue 2009, Cum. Supp. 2014). The Program has been established pursuant to both the Federal Safe Drinking Water Act and State statutes to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low-interest loans with some forgiveness to finance the entire cost of qualified projects. The Program provides a flexible financing source, which can be used for a variety of projects. Loans made by the Program can have terms of repayment between 5 and 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities may choose to have up to 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20% of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2015, the EPA had awarded \$166 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$166 million required the State to contribute approximately \$33 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 and the use of Administrative Cash Funds.

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, the Program's Intended Use Plan, loan interest rates, and revenue bonding amounts. The Nebraska Department of Health and Human Services – Division of Public Health sets the funding priorities.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

An exit conference was held March 1, 2016, with the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program (Program) to discuss the results of our examination. Those in attendance for the Program were:

NAME	AGENCY	TITLE
Martie Guthrie	DEQ	Budget Officer III
Nick Zornes	DEQ	Environmental Program Specialist
Steve McNulty	DHHS	Environmental Engineer II
Chin Chew	DHHS	Environmental Engineer Section Supervisor
Kevin Stoner	DEQ	State Revolving Fund Section Supervisor
Jim Novotny	DEQ	Accountant III
Steven Goans	DEQ	Deputy Director
Kris Young	DEQ	Accountant III
John Danforth	DEQ	Environmental Assistant Coordinator
Mary Brady	DEQ	Federal Aid Administrator II
Dennis Burling	DEQ	Deputy Director
Jim Macy	DEQ	Director

Agencies

DEQ – Department of Environmental Quality

DHHS – Department of Health and Human Services



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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, 2015, and the related notes to the financial statements, which collectively comprise the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2015, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2016, 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 *OMB Circular A-133 Compliance Supplement*, we have also issued our report dated March 1, 2016, 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
March 1, 2016



Philip J. Olsen, CPA, CISA
Audit Manager

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Environmental Quality (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, 2015. 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 the following: 1) Balance Sheet; 2) Statement of Revenues, Expenses, and Changes in Net Position; 3) Statement of Cash Flows; and 4) Notes to the Financial Statements.

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

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

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

ANALYSIS OF BALANCES AND TRANSACTIONS – ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2015, the net position of the Program increased by 9.5%. Operating revenues for the Program increased by .5%, while operating expenses increased by 11.9%.

NET POSITION			
	2015	2014 (As Restated)	% Change
Current Assets	\$ 71,233,932	\$ 65,699,956	8.4%
Non-current Assets	92,145,789	89,112,486	3.4%
Total Assets	163,379,721	154,812,442	5.5%
Current Liabilities	558,974	1,375,754	-59.4%
Non-current Liabilities	22,619	4,804,257	-99.5%
Total Liabilities	581,593	6,180,011	-90.6%
Net Position:			
Net Investment in Capital Assets	97,551	28,661	240.4%
Restricted	-	1,019,143	-100.0%
Unrestricted	162,700,577	147,584,627	10.2%
Total Net Position	\$ 162,798,128	\$ 148,632,431	9.5%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CHANGES IN NET POSITION

	2015	2014	
	2015	(As Restated)	% Change
Loan Fees Administration	\$ 991,220	\$ 974,841	1.7%
Interest on Loans	2,351,966	2,350,321	.1%
Total Operating Revenues	3,343,186	3,325,162	.5%
Administration & Set-Asides	2,824,458	2,618,967	7.8%
Loan Forgiveness	1,864,223	1,570,078	18.7%
Total Operating Expenses	4,688,681	4,189,045	11.9%
Operating Income (Loss)	(1,345,495)	(863,883)	55.7%
Federal Grants	14,267,341	9,991,499	42.8%
Interest Revenue	1,608,595	1,346,249	19.5%
Bond Expenses	(364,744)	(283,198)	28.8%
Total Non-Operating Revenue (Expense)	15,511,192	11,054,550	40.3%
Change in Net Position	14,165,697	10,190,667	39.0%
Beginning Net Position July 1	148,632,431	138,441,764	7.4%
Ending Net Position June 30	\$ 162,798,128	\$ 148,632,431	9.5%

The most significant changes from the fiscal year ended June 30, 2014, to the fiscal year ended June 30, 2015, were the reduction of both current and long-term liabilities due to bonds being retired and defeased on June 18, 2015. Loan Forgiveness also increased, 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 the bond redemptions, as well as early loan pay-offs in previous and current years, the cash balance has increased significantly. Federal Grant receipts increased due to some large federally funded loan disbursements. Four projects resulted in draw-downs of Federal grant funds of \$6,320,955, accounting for 44% of the total Federal grant receipts. This has resulted in a higher ending 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. To more accurately reflect the type of revenue being reported, interest on investing activities has been reclassified from operating revenue to non-operating revenue.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

ECONOMIC OUTLOOK

The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to collect the amount of user fees needed to fund infrastructure requirements.

DEBT ADMINISTRATION

Long-Term Debt

The Drinking Water State Revolving Fund had long-term debt activity during the fiscal year, as reflected in Non-current Liabilities in the Net Position section. The Series 2000A and 2008A bonds were retired on June 18, 2015. The 2010A bond was defeased on the same date, and an escrow agreement was entered into with Wells Fargo as the Trustee. The escrow will serve as the means for paying principal and interest debt service as it comes due on the bond, until it is eligible to be redeemed on July 1, 2017.

Of the \$10,192,203 available in the Wells Fargo accounts on June 18, 2015, \$5,008,788 was paid to the Trustee to deposit into an escrow account to pay off and retire/defeas the outstanding bonds. Excess pledged funds and investment earnings amounting to \$5,183,414 were paid to the Agency by Wells Fargo and deposited with the State Treasurer.

The retirements and escrow accounts were funded entirely with the sale of Program investments and earned interest held by the Trustee. At June 30, 2015, the Program had no outstanding debt as a result of the activity during the fiscal year.

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

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

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

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

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

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

Prior year Net Position was restated due to an invoice that was paid to Northbridge for the LGTS system that had not been capitalized in the fiscal year 2014 financials. The invoice was for \$7,513 for work done in the month of June 2014. This amount was added to the capitalization total for the Net Investment in Capital Assets, and the 2014 Net Position restated.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
 June 30, 2015

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash & Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 64,513,218
Due from Federal Government	464,662
Interest Receivable	98,095
Loans Receivable (Note 3)	6,157,957
TOTAL CURRENT ASSETS	71,233,932
NON-CURRENT ASSETS:	
Loans Receivable (Note 3)	92,048,238
Capital Assets, Net (Note 4)	97,551
TOTAL NON-CURRENT ASSETS	92,145,789
TOTAL ASSETS	\$ 163,379,721
 LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable & Accrued Liabilities	\$ 298,524
Due to Grant Recipients (Note 1)	258,213
Compensated Absences (Note 6)	2,237
TOTAL CURRENT LIABILITIES	558,974
NON-CURRENT LIABILITIES:	
Compensated Absences (Note 6)	22,619
TOTAL NON-CURRENT LIABILITIES	22,619
TOTAL LIABILITIES	\$ 581,593
 NET POSITION	
Net Investment in Capital Assets	97,551
Unrestricted	162,700,577
TOTAL NET POSITION	162,798,128
TOTAL LIABILITIES AND NET POSITION	\$ 163,379,721

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, 2015

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	\$ 991,220
Interest on Loans	2,351,966
TOTAL OPERATING REVENUES	3,343,186
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	534,518
15% Source Water Assessment Program (Note 10)	640,417
2% Technical Assistance to Small Systems (Note 10)	135,000
10% Public Water Supply System (Note 10)	1,514,523
Loan Forgiveness (Note 10)	1,864,223
TOTAL OPERATING EXPENSES	4,688,681
OPERATING LOSS	(1,345,495)
NON-OPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	14,201,102
Capital Contributions - Federal Grants - Capital Assets	66,239
Interest on Fund Balance - Trustee	588,902
Interest on Fund Balance - State Operating Investment Pool (Note 9)	1,019,693
Interest Expense - State Match Bonds	(335,704)
Cost of Bond Issuance	(29,040)
TOTAL NON-OPERATING REVENUE (EXPENSE)	15,511,192
CHANGE IN NET POSITION	14,165,697
TOTAL NET POSITION, BEGINNING OF YEAR - As restated (Note 13)	148,632,431
TOTAL NET POSITION, END OF YEAR	\$ 162,798,128

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, 2015

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 13,050,241
Payments to Borrowers	(12,369,360)
Payments for Administration	(477,849)
Payments for 15% Source Water Assessment Program	(719,746)
Payments for 2% Technical Assistance to Small Systems	(135,000)
Payments for 10% Public Water Supply System	(1,218,626)
Payments for Loan Forgiveness	(2,010,876)
NET CASH USED BY OPERATING ACTIVITIES	(3,881,216)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grant Funds Received From the Environmental Protection Agency	14,198,770
Receipts from Bond Issue (Short-Term)	1,770,000
Repayment of Bond (Short-Term)	(1,770,000)
Bond Interest Payments (Short-Term)	(8,909)
Payment for Bond Issuance Costs (Short-Term)	(29,040)
Bond Principal Payments (Long-Term)	(5,565,000)
Bond Interest Payments (Long-Term)	(444,076)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	8,151,745
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Contributions	66,239
Purchase of Capital Assets	(68,890)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(2,651)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	1,593,753
Sale of Investments Held by the Trustee	9,899,121
Purchase of Investments Held by the Trustee	(2,867,341)
NET CASH PROVIDED BY INVESTING ACTIVITIES	8,625,533
Net Increase in Cash and Cash Equivalents	12,893,411
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	51,619,807
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 64,513,218
RECONCILIATION OF OPERATING LOSS TO	
NET CASH USED BY OPERATING ACTIVITIES:	
Net Operating Loss	\$ (1,345,495)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(2,662,305)
(Increase)/Decrease in Due from Contractor	42,721
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	226,365
Increase/(Decrease) in Compensated Absences	4,150
Increase/(Decrease) in Payables to Grant Recipients	(146,652)
Total Adjustments	(2,535,721)
NET CASH USED BY OPERATING ACTIVITIES	\$ (3,881,216)

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, 2015

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 (Trustee) for the State match bond accounts.

B. Reporting Entity

The Program is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act of the State of Nebraska. The Agency is a State agency established under and governed by the laws of the State of Nebraska. As such, the Agency is exempt from State and Federal income taxes. The Program's management has also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on the Program or whose relationship with the Program is so significant that exclusion would be misleading or incomplete. The 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 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 – Federal Funds 48416, and 48418; and Bond Funds 68481, 68482, 68483, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

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

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

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

D. Measurement Focus, Basis of Accounting

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

E. Cash and Cash Equivalents

Cash and Cash Equivalents – Cash and cash equivalents consist of cash in the State Treasury. This includes cash in bank accounts and petty cash, short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments 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, 2015, approximates market. Banks pledge collateral, as required by law to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced. After the final disbursement has been made, the amortization schedule identified in the loan agreement is adjusted for the actual amounts disbursed. The interest rates on loans range from 2.0% to 4.0%, and the terms on outstanding loans range from 13 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.

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 current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2015, which is collectible in fiscal year 2016. Loans receivable that were paid in full, prior to their due date, as of August 31, 2015, were included in the current loans receivable balance as opposed to the long-term loans receivable balances.

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

G. Use of Estimates

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

H. Compensated Absences

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

Program employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55 – or a younger age, if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

I. Due to Grant Recipients

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

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

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

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

J. Operating Revenues and Expenses

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

K. Capital Assets

The Program has only one capital asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Agency began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and is anticipating this phase to be completed during the fiscal year ended June 30, 2016. The LGTS software is considered an intangible capital asset, and the Agency follows the capitalization policy set forth by the State of Nebraska for intangible capital assets, which requires capitalization of such assets when the cost of such asset is in excess of \$100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the developmental phase and the software being put into production, and it will be computed using the straight-line method over the estimated useful life of the asset.

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, 2015. 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 2015. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee – At June 30, 2015, there were no Program funds held by the Trustee, as all outstanding bonds were paid off or in-substance defeased. See Note 5, Bonds Payable, for more details on the payoff and defeasance.

3. **Loans Receivable**

As of June 30, 2015, the Program had 120 outstanding community loans that totaled \$98,206,195. The outstanding balances of the 10 communities with the largest loan balances, which represent 55.0% of the total loans, were as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Loans Receivable (Concluded)

Community	Outstanding Balance
Lincoln	\$ 13,986,706
McCook	8,206,611
Gering	5,943,147
Metropolitan Utilities District	4,879,391
North Platte	4,759,976
Auburn	4,066,806
Sidney	3,701,024
Alliance	3,303,589
Blair	3,083,869
Ravenna	2,103,250
TOTAL	\$ 54,034,369

4. Capital Assets

The Drinking Water SRF capital assets activity for the year ended June 30, 2015, was:

	Beginning Balance As Restated	Additions	Retirements	Ending Balance
Software Development In-Progress				
Loans and Grants Tracking System (LGTS)	\$ 28,661	\$ 68,890	\$ -	\$ 97,551

The amount capitalized for LGTS at June 30, 2014, did not include a June 2014 invoice paid to Northbridge Environmental by the EPA, in the amount of \$7,513. The beginning balance was increased by \$7,513 to properly reflect the capital asset balance at June 30, 2014.

5. Bonds Payable

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. Bonds Payable (Concluded)

Short-Term Bonds – The proceeds of short-term revenue bonds are used by the Agency to provide the 20% match requirements for the Agency’s Federal Capitalization Grants. Interest revenue from Program loans is pledged to pay off the bonds. During the fiscal year, the Program issued and retired Series 2014A short-term revenue bonds to meet the requirement of matching each capitalization grant with 20% of non-Federal funds. Bonds Payable activity for fiscal year 2015 on the short-term bond was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	\$ -	\$ 1,770,000	\$ 1,770,000	\$ -

Long-Term Bonds – The Series 2000A and 2008A bonds were retired on June 18, 2015. The Agency in-substance defeased the 2010A bond on the same day, by depositing \$2,679,841 with an escrow agent in trust. Debt is considered defeased in substance for accounting and financial reporting purposes if the debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt. The 2010A bonds are scheduled to be redeemed on July 1, 2017. The retirements and defeasance were funded entirely with the sale of investments and earning of interest on the funds held by the Trustee for the Program. The Bonds Payable activity for fiscal year 2015 on the long-term bonds was:

	Beginning Balance	Additions	Retirements	Ending Balance
Series 2000A	\$ 1,465,000	\$ -	\$ 1,465,000	\$ -
Series 2008A	1,385,000	-	1,385,000	-
Series 2010A	2,715,000	-	2,715,000	-
Total Bonds Payable	\$ 5,565,000	\$ -	\$ 5,565,000	\$ -

6. Non-current Liabilities

Changes in non-current liabilities for the year ended June 30, 2015, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 20,706	\$ 4,150	\$ -	\$ 24,856	\$ 2,237

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Capital Contributions

Included in the net position is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2015. 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, 2015, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1997	\$ 12,824,000	\$ 12,824,000	\$ -
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 - ARRA	19,500,000	19,500,000	-
2009	8,146,000	8,146,000	-
2010	13,573,000	13,573,000	-
2011	9,418,000	9,418,000	-
2012	8,695,558	8,695,558	-
2013	8,533,907	4,246,947	4,286,960
2014	8,845,000	4,863,358	3,981,642
2015	8,681,560	-	8,681,560
TOTAL	\$ 185,597,751	\$ 168,647,589	\$ 16,950,162

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

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2015, was \$68,890. The total amount utilized for LGTS as of June 30, 2015, was \$97,551. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program which also utilizes the LGTS software.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. Loan Fees Administration

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

9. Interest on Fund Balance – State Operating Investment Pool

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

10. Operating Expenses

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

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

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

All set-asides are required to be Federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these categories:

Administrative Costs from Fees

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. Operating Expenses (Concluded)

15% Source Water Assessment Program

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

- Provide assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- Support the establishment and implementation of wellhead protection programs; and
- Provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A State may use up to 2% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority and use it for the same activities in later years. A State may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A State may use up to 10% of the grant funds awarded to do the following:

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

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments the State subsidized to communities meeting the definition of “disadvantaged” or which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year’s capitalization grant cannot exceed 30% of the amount of the capitalization grant for that year.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. State Employees Retirement Plan (Plan)

The single-employer Plan became effective by statute on January 1, 1964. The Public Employees Retirement Board was created in 1971 to administer the Plan. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected either to continue participation in the defined contribution option or to begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan are established and can only be amended by the Nebraska Legislature.

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

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

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

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

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

For the fiscal year ended June 30, 2015, employees contributed \$11,617, and the Agency contributed \$18,123. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

12. Contingencies and Commitments

Risk Management – The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Agency, as part of the primary government for the State, participates in the State’s risk management program. 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 the following:

- A. Motor vehicle liability, which is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Crime coverage, with a limit of \$31,000,000 for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- C. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10,000,000 for 120 days and, after 120 days, if the property has not been reported, the limit decreases to \$5,000,000. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

12. Contingencies and Commitments (Concluded)

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

13. Restatements of Beginning Net Position

Beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position was restated due to an in-kind grant contribution for \$7,513 that was not recorded on the 2014 financial statements. The in-kind grant contribution was for work performed by Northbridge Environmental for the LGTS Software system.



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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, 2015, 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 March 1, 2016.

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*.

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
March 1, 2016



Philip J. Olsen, CPA, CISA
Audit Manager



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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 OMB CIRCULAR A-133 COMPLIANCE
SUPPLEMENT**

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

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

We have audited the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program for the year ended June 30, 2015.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lincoln, Nebraska
March 1, 2016


Philip J. Olsen, CPA, CISA
Audit Manager

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2016 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
Central City, City of	Consolidation of Nebraska Christian Schools Water System	In February 2015, the City's Engineer completed plans for consolidating the School's water system into Central City's. For the school, it was determined that the proposed project was the most sustainable option to address the local Arsenic and Selenium groundwater quality issues. Replacement well and treatment alternatives were evaluated, but it was concluded that consolidating with City of Central City was the best alternative. Further, a connection to the existing Merrick County Fairgrounds will be planned into the project.	Historically there have been four (4) wells that the Nebraska Christian Schools water system operated. One was abandoned due to age, as it was originally constructed in 1963. Two others were either abandoned (Well No. 021), or placed on emergency use only (Well No. 2006-1) due to levels of Arsenic and/or Selenium above the drinking water standards of 10 and 50 µg/L (13.5/202 µg/L and 12.1 µg/L, respectively). Their current operable well had a measured level of Arsenic of 8.09 µg/L when sited, which has now risen to a concentration of 8.74 µg/L. As the local groundwater have levels of Arsenic and Selenium above drinking water standards, the School has determined that the operation of their water system is no longer sustainable, thus deciding to consolidate into Central City's public water system.	N/A
Edgar, City of	Water Meters and Well Improvements	The project will result in the installation of water service meters in their Public Water System (PWS), and to make miscellaneous improvements to their water supply wells.	This is the first phase of a larger project, thus it may also include some planning costs for those future phases. The City has been issued an Administrative Order to return into compliance with the Nitrate drinking water standard. This funding, in conjunction with the Community Development Block Grant (CDBG), will complete a necessary first project step that will assist in the design of subsequent phases, in order to return the City into compliance.	The majority of this project phase is categorically eligible for the Green Project Reserve, as the meters are being installed on previously unmetered service connections.
Falls City, City of	Horizontal Collector Well and Water Treatment Plant Upgrades	In January 2012, the City's Engineer completed a Technical Feasibility Report for improvements at the Falls City Wellfield and Water Treatment Plant. In 2011, the Missouri River basin experienced a flooding event that the National Weather Service characterized as extreme in terms of its spatial extent and temporal duration. Falls City's wellfield is located along the river protected by a levee. Although the wellfield did not flood, ponding of water was present, and all of the systems' wells would flood if the levee was ever topped. As no backup water source exists for the City, the need for the project was established to ensure that the City can supply a safe supply of drinking water on a continuous basis. The project may be completed in multiple phases. A new horizontal collector well above flood elevation will be constructed to replace seven system wells that realistically cannot be elevated above the top of the levee. Then the treatment plant will be upgraded for all aspects of the surface water treatment rule monitoring requirements, and a new clearwell and baffling improvements added to meet contact time requirements.	N/A	The infrastructure investment in a new Horizontal Collector Well, to replace seven of their existing wells, is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy. Further, the project will protect the City's water supply flooding caused by extreme weather events.
Grant, City of	New Water Meters and Replace Water Mains	The project will install water meters on the presently unmetered service connections. The City typically issues orders for conservation during the summer months, with meters now being installed typically a community will see a ~30% reduction in water consumption. Without the project there would be no reduction in water consumption and Grant will be left without the means to accurately identify revenue, needed to efficiently manage a public water system. In addition, several blocks of water main along Sherman Avenue will be replaced as part of the project.	N/A	The new water meters are categorically eligible for funding under the Green Project Reserve. Also, the infrastructure investment in replacing water mains along Sherman Avenue is in line with the stated goals of EPAs Drinking Water Infrastructure Sustainability Policy.
Hartington, City of	Replacement Water Service Meters	The installation will consist of an upgrade to automatic radio read meters with leak detection capability.	N/A	The replacement water meters are categorically eligible for funding under the Green Project Reserve.
Holstein, Village of	Well Relining and Water Main Replacement	The Village of Holstein has secured funding, to reline its' primary water supply well due to holes that have developed in the existing concrete casing, and to replace two blocks of distribution system main on Monroe Street from Cleveland to Holstein Avenues.	N/A	The infrastructure investment in water main replacement is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Oshkosh, City of	Replacement Wells w/ Transmission Main, Ground Storage Tank, and Distribution System Improvements	In July 2014, a Water System Evaluation was completed by the City's engineer. The Public Water System (PWS) consists of two active municipal wells, an elevated 50,000 gallon water storage tower that was constructed in 1920, and a distribution system. Recent monitoring of the City's wells have detected Arsenic at concentrations above the U.S. Environmental Protection Agency's (EPA) drinking water standard of 10 µg/L. As their present supply is not sustainably due to presence of Arsenic and the age of the existing supply wells exceeding their expected operational life, two alternatives were evaluated including constructing new wells and treatment of the existing water source. Through the Water System Evaluation, new wells were recommended by the engineer, as operation and maintenance costs of the treatment alternative were excessive. In addition, the City's water tower was recommended for replacement due to age and need for maintenance, as well as it is undersized to meet the system's Average Day Demand for drinking water. Further, as the new well sites are situated almost 6 miles north of the City, a less costly buried storage tank will be constructed to replace the water tower, due to the elevation gain in siting the new infrastructure north of the City. Further, replacement of sections of the distribution system due to age, deterioration and undersized piping was also recommended, as well as looping of dead-end water mains to increase system pressures and the replacement of old inaccurate water meters.	Recent monitoring of the City's wells have detected Arsenic at concentrations above the U.S. Environmental Protection Agency's (EPA) drinking water standard of 10 µg/L. In 2014, the City received three violation notices for Arsenic in Well No. 45-2 with concentrations ranging up to 11.5 µg/L, and in the spring of 2015 their other Well No. 74-1 was switched onto quarterly monitoring, as Arsenic levels were detected as high as 11.8 µg/L. It is commendably noted that the City has avoided an Administrative Order by no longer using two other supply wells due to measured Arsenic and Uranium levels above drinking water standards.	The project will replace old inaccurate water meters. That installation will consist of an upgrade to automatic radio read meters, and thus are categorically eligible for funding under the Green Project Reserve. The project will help minimize operation costs for the PWS through less labor required to read water meters and, the majority of the project achieves the goals of the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure. The project will be jointly funded Nebraska's Community Development Block Grant program.
Osmond, City of	Replacement Well with Transmission Main, New Water Meters	The public water system consists of an active municipal well with levels above the Nitrate MCL, an elevated 80,000 gallon water storage tower, and a distribution system. In addition, there is a second well that has not pumped water into the system for several years due to levels of Nitrates being detected above the drinking water standard. In August of 2013, Osmond drilled a test well, for which the levels of Nitrates were significantly below the MCL. In 2014, an engineering report update was prepared that evaluated and recommended the replacement well project. Water meters will also be installed as part of the project.	In May of 2013, the City was issued an administrative order to return to compliance with the Nitrate Maximum Contaminant Level (MCL). This project will address that order.	The water meters that will be installed as part of the project are categorically eligible under the Green Project Reserve. Further, the infrastructure investment in a Replacement Well is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Overton, Village of	Distribution System Improvements	In May 2014, a Preliminary Engineering Report was completed by the Village's Engineer. The Public Water System consists of two municipal wells, a 150,000 Gallon Water Tower and an undersized distribution system, which has experienced a moderate amount of water leaks requiring repairs over the past decade. The engineering evaluation recommended that all areas of undersized water mains, which have shown a history of breaks, be replaced due to age and condition. Within those areas service lines up to and including the curb stops will also be replaced, along with a certain number of water meters and meter pits.	N/A	The infrastructure investment in a replacing water mains is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Phillips, Village of	Replacement Well, System Controls and Looping of Mains	In March 2009, the Village's Engineer completed a Preliminary Engineering Report that evaluated Phillips' water system needs. A supplement to that report was prepared in May 2014. The Public Water System consists of an active municipal well, an elevated 50,000 gallon water storage tower, and a distribution system. In addition, there is a second well that was placed on emergency use only operation status in 2013 due to elevated levels of nitrates and uranium detected in the supply. The supplement to the engineering report concluded that the Village needed a new well to re-establish a backup water supply, and to also add a Variable Frequency Drive to the existing well and new controls for the system. Lastly, several blocks of the distribution system will be looped with a new water main.	The new backup well will ensure that the Village does not have to turn on their existing emergency well that has historically recorded elevated levels of nitrates and uranium.	N/A
Pleasanton, Village of	Replacement Well and Controls	In December 2013, the Village's Engineer completed a Preliminary Engineering Report that evaluated Pleasanton's water system needs. The public water system consists of three active municipal wells, an elevated 100,000 gallon water storage tower, and a distribution system. One of the system's wells is nearly 60 years in age, well past the expected service life, and was recommended for replacement. Further, one of the remaining wells has an elevated level of radium-228 at 4.40 pCi/L, which presently remains below the drinking water standard of 5 pCi/L. But due to the combination of both issues, this replacement well project will ensure that the Village can provide an adequate supply of safe drinking water to its residents.	While one of the remaining wells has an elevated level of radium-228 at 4.40 pCi/L, which presently remains below the drinking water standard of 5 pCi/L, this project will provide a long-term replacement for that well should radium levels ever rise.	The infrastructure investment in a Replacement Well is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Sarpy Co. SID 29 - Westridge Farms, Inc.	Distribution System Replacement, Interconnection with City of Gretna	In June 2015, a Preliminary Engineering Report was completed by the Sanitary Improvement District's Engineer. Their existing Public Water System consists of two municipal wells, five 120-gallon pressure storage tanks, and an undersized distribution system. One of their wells has failed, and upon searching for a replacement well site it was determined that established setback criteria could not be met. Rather than permanently operate as a one supply well system, the District commendably opted to interconnect the system to the City of Gretna, which will ensure that the residents are provided with a supply of safe drinking water on a continuous basis. The project will replace the District's distribution system with water mains meeting Gretna's standards, and abandoned the existing wells/system per State requirements.	N/A	The infrastructure investment in replacing water mains is in line with the stated goals of EPAs Drinking Water Infrastructure Sustainability Policy.

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2016 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
Sidney, City of	New Water Tower, Booster Station Pump Replacements, Transmission Main & Dist. System Improvements	The Public Water System consists of twelve active municipal wells that mainly supply water to a 1.5 million gallon (MG) blending station, where it is then re-pumped to the City's initial pressure zone. That zone has three storage tanks with a combined capacity of 1.225 MG and two booster stations, which then re-pump Sidney's supply to its second upper pressure zone. That zone has a single 250,000 gallon water storage tower. The water supply is chlorinated for disinfection prior to delivery into the distribution system. In April 2014, a Water System Master Plan was prepared and developed to address the City's needs through 2034. Then in June 2014, a Five-Year Implementation Plan of Water System Improvements was prepared that detailed the preliminary scope of this project. It was concluded that replacement of the pumps at two booster stations was needed along with construction of a new 500,000 gallon water tower in the upper pressure zone to meet the needs of the City's existing users per current design standards. Associated with those projects, new transmission mains and distribution system improvements will be constructed to maintain an adequate supply of safe drinking water at the minimum service pressures required by regulation.	N/A	The infrastructure investment in replacement booster pumps is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Weeping Water, City of	Blending Well, Transmission Main and Well Rehabilitation	In October 2014, the City's Engineer completed a Design Report that evaluated the siting of the proposed supply well and blending transmission main. The Public Water System consists of three municipal wells, a 320,000 gallon water storage tank with booster pumping to the distribution system. The City's existing wells will all exceed 40 years in age by the time the project is constructed, in excess of the average expected life of a municipal supply well in the State, and have experienced fluctuating levels of Nitrates. In addition, the City may consider sealing the annular space of their existing supply wells depending upon the outcome of the research work being performed by State's Annular Seal Task Force. Any rehabilitation work on the existing wells would be eligible for funding through the proposed loan in accordance with the IUP.	With recent Nitrate monitoring recording levels as high as 9.22 mg/L, supports the recommendation in the engineering report that Weeping Water construct a new well. From an evaluation of projected supply needs of the existing system users, the new well will be connected to the existing supply wells to allow for blending and will establish a new primary water source for the community. Test Hole data from the well site showed a Nitrate level of 0.592 mg/L, allowing blending to be a feasible alternative.	N/A

SFY 2016 FUNDING LIST PLANNED				SFY 2015/2016 FUNDED PROGRAM				
PRIORITY	PUBLIC WATER SYSTEM	ESTIMATED COST	ESTIMATED FORGIVENESS	TOTAL ASSISTANCE	ACTUAL FORGIVENESS	NET LOAN AMOUNT	AGREEMENT DATE/QUARTER	COMMENTS
FNSI	OSMOND, CITY OF	\$ 1,325,000	\$ 463,750	\$ 936,600	\$ 327,810	\$ 608,790	SFY2016-Q1	
FNSI	OSHKOSH, CITY OF	\$ 4,025,000	\$ 805,000	\$ 4,025,000	\$ 1,006,250	\$ 3,018,750	SFY2016-Q1	
CatEx	WOOD LAKE, VILLAGE OF	\$ 125,000	\$ 43,750	\$ 125,000	\$ 43,750	\$ 81,250	SFY2015-Q4	
FNSI	FAIRBURY, CITY OF	\$ 5,520,000	\$ 1,104,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
FNSI	LAUREL, CITY OF	\$ 781,750	\$ 273,613	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
FNSI	PHILLIPS, VILLAGE OF	\$ 665,000	\$ 232,750	\$ 560,000	\$ 196,000	\$ 364,000	SFY2016-Q1	
FNSI	PLEASANTON, VILLAGE OF	\$ 1,400,000	\$ 120,260	\$ 400,000	\$ 34,360	\$ 365,640	SFY2016-Q1	
FNSI	AURORA, CITY OF	\$ 1,000,000	\$ 92,800	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
FNSI	FALLS CITY, CITY OF	\$ 2,902,000	\$ 580,400	\$ 5,334,412	\$ 1,066,882	\$ 4,267,530	SFY2016-Q2	
FNSI	OVERTON, VILLAGE OF	\$ 750,000	\$ -	\$ 715,000	\$ -	\$ 715,000	SFY2016-Q1	
165	DAVEY, VILLAGE OF	\$ 1,070,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Planning List
145	WEEPING WATER, CITY OF	\$ 700,000	\$ 140,000	\$ 700,000	\$ 140,000	\$ 560,000	SFY2016-Q3	
135	HASTINGS, CITY OF	\$ 3,561,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
135	SPRINGFIELD, CITY OF	\$ 1,875,000	\$ 375,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
120	CENTRAL CITY, CITY OF	\$ 723,400	\$ 144,680	\$ 723,400	\$ 144,680	\$ 578,720	SFY2016-Q1	
110	KILGORE, VILLAGE OF	\$ 351,300	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Planning List
80	HARBINE, VILLAGE OF	\$ 200,000	\$ 40,000	\$ -	\$ -	\$ -	N/A	Project privately funded
70	WEST KNOX RWD	\$ 2,426,433	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
70	EWING, VILLAGE OF	\$ 650,000	\$ -	\$ -	\$ -	\$ -	TBD	Project not moving forward
70	SIDNEY, CITY OF	\$ 11,000,000	\$ -	\$ 7,500,000	\$ -	\$ 7,500,000	SFY2016-Q3	
60	METROPOLITAN UTILITIES DISTRICT	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Funding List
0	SARPY CO SID 29 - WESTRIDGE	\$ 489,510	\$ -	\$ 670,000	\$ -	\$ 670,000	SFY2016-Q2	
SFY 2015 PLANNING LIST - BYPASS SYSTEMS				SFY 2015 FUNDED PROGRAM				
190	EDGAR, CITY OF	\$ 1,450,000	N/A	\$ 291,100	\$ 72,775	\$ 218,325	SFY2016-Q3	Funded per SFY2016 Bypass Criteria
60	HOLSTEIN, VILLAGE OF	\$ 175,000	N/A	\$ 130,000	\$ 26,000	\$ 104,000	SFY2016-Q1	Funded per SFY2015 Bypass Criteria
				\$ 22,110,512	\$ 3,058,507	\$ 19,052,005		

SFY 2016 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2016 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	GRANT, CITY OF	\$ 2,200,000	\$ 440,000	\$ 2,156,730	\$ 431,346	\$ 1,725,384	SFY2016-Q1	
2	HARTINGTON, CITY OF	\$ 350,000	\$ 70,000	\$ 500,000	\$ 100,000	\$ 400,000	SFY2016-Q4	
3	LODGEPOLE, VILLAGE OF	\$ 300,000	\$ 60,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Planning List
4	KENESAW, VILLAGE OF	\$ 644,000	\$ 92,672	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2017 Planning List
				\$ 2,656,730	\$ 531,346	\$ 2,125,384		