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 2017

October 2017

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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. This annual report is for the State Fiscal Year (SFY) 2017 (July 1, 2016 through June 30, 2017). 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 2017 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 $229 million, plus loan forgiveness over $28 million, to 222 Public Water System (PWS) projects beginning with the program’s inception in year 1997 through June 30, 2017. The Federal Fiscal Year (FFY) 2017 EPA capitalization grant has not been awarded, and thus will be discussed in next year’s annual report.

I. FINANCIAL SCHEDULES SECTION

BACKGROUND

The Nebraska Department of 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, 2017, the EPA had awarded $174.3 million in capitalization grants to the State, plus $19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this $174.3 million required the State to contribute approximately $34.8 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 state fiscal year ended June 30, 2017. 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, 2017, the net position of the Program increased by 8.0%. The cash balance increased significantly due to several large loan payoffs, amounting to over $13 million for the fiscal year. Prior year Current Liabilities included an amount Due to Grant Recipients of $433,635 for Loan Forgiveness paid in July/August 2016. No such amount is due for FY 2017.

NET POSITION

	2017	2016	% Change
Current Assets	$ 109,432,139	$ 94,176,189	16.2%
Non-current Assets	78,647,461	80,341,978	-2.1%
Total Assets	**188,079,600**	**174,518,167**	**7.8%**
Current Liabilities	233,171	624,761	-62.7%
Non-current Liabilities	17,200	17,608	-2.3%
Total Liabilities	**240,371**	**642,369**	**-62.6%**
Net Position:			
Net Investment in Capital Assets	195,027	165,587	17.8%
Unrestricted	187,644,202	173,710,211	8.0%
Total Net Position	**$ 187,839,299**	**$ 173,875,798**	**8.0%**

CHANGES IN NET POSITION

	2017	2016	% Change
Loan Fees Administration	$ 815,301	$ 930,075	-12.3%
Interest on Loans	1,921,296	2,224,924	-13.6%
Total Operating Revenues	**2,736,597**	**3,154,999**	**-13.3%**
Administration & Set-Asides	2,266,694	2,639,946	-14.1%
Loan Forgiveness	1,909,818	1,999,024	-4.5%
Total Operating Expenses	**4,176,512**	**4,638,970**	**-10.0%**
Operating Income (Loss)	**(1,439,915)**	**(1,483,971)**	**-3.0%**
Federal Grants	13,392,509	10,869,814	23.2%
Interest Revenue	2,013,658	1,664,827	21.0%
Bond Expenses	(2,821)	-	-100%
Total Non-Operating Revenue (Expense)	**15,403,346**	**12,561,641**	**22.6%**
Change in Net Position	**13,963,431**	**11,077,670**	**26.1%**
Beginning Net Position July 1	**173,875,798**	**162,798,128**	**6.8%**
Ending Net Position June 30	**$ 187,839,229**	**$ 173,875,798**	**8.0%**

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 negotiates, monitors, and manages the Northbridge contract for LGTS.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

UNAUDITED BALANCE SHEET

Fiscal Year Ended June 30, 2017

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash & Cash Equivalents:	
Cash in State Treasury (Note 2)	$ 104,050,086
Due from Federal Government	197,063
Interest Receivable	167,207
Loans Receivable (Note 3)	5,017,783
TOTAL CURRENT ASSETS	109,432,139
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	78,452,434
Capital Assets, Net (Note 4)	195,027
TOTAL NON-CURRENT ASSETS	78,647,461
TOTAL ASSETS	$ 188,079,600
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable & Accrued Liabilities	221,470
Due to Grant Recipients (Note 1)	-
Compensated Absences (Note 6)	1,701
TOTAL CURRENT LIABILITIES	223,171
NON-CURRENT LIABILITIES	
Compensated Absences (Note 6)	17,200
TOTAL NON-CURRENT LIABILITIES	17,200
TOTAL LIABILITIES	$ 240,371
NET POSITION	
Net Investment in Capital Assets	195,027
Unrestricted	187,644,202
TOTAL NET POSITION	187,839,229
TOTAL LIABILITIES AND NET POSITION	$ 188,079,600

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

UNAUDITED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Fiscal Year Ended June 30, 2017

		Enterprise Fund
OPERATING REVENUES:		
Loan Fees Administration (Note 8)	$	815,301
Interest on Loans		1,921,296
TOTAL OPERATING REVENUES	$	2,736,597
OPERATING EXPENSES:		
Administrative Costs from Fees (Note 10)		470,264
15% Source Water Assessment Program (Note 10)		573,918
2% Technical Assistance to Small Systems (Note 10)		118,162
10% Public Water Supply System (Note 10)		1,104,350
Loan Forgiveness (Note 10)		1,909,818
TOTAL OPERATING EXPENSES	$	4,176,512
OPERATING LOSS	$	(1,439,915)
NONOPERATING REVENUE (EXPENSE)		
Capital Contributions - Federal Grants (Note 7)	$	13,364,786
Capital Contributions - Federal Grants - Capital Assets		27,723
Interest on Fund Balance - State Operating Investment Pool (Note 9)		2,018,596
Interest Expense on Bonds Payable (Short-Term)		(4,938)
Cost of Bond Issuance		(2,821)
TOTAL NONOPERATING REVENUE (EXPENSE)	$	15,403,346
CHANGE IN NET POSITION		13,963,431
TOTAL NET POSITION, BEGINNING OF YEAR AS RESTATED		173,875,798
TOTAL NET POSITION, END OF YEAR	$	187,839,229

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	$ 23,239,924
Payments to Borrowers	(12,747,736)
Payments for Administration	(478,901)
Payments for 15% Source Water Assessment Program	(576,766)
Payments for 2% Technical Assistance to Small Systems	(127,458)
Payments for 10% Public Water Supply System	(1,051,932)
Payments for Loan Forgiveness	(2,343,453)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,913,678
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received From the Environmental Protection Agency	$ 13,758,017
Bond Interest Payments (Short-Term)	(4,938)
Payment for Bond Issuance Costs (Short-Term)	(2,821)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	$ 13,750,258
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital Contributions	$ 27,723
Purchase of Capital Assets	(29,440)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	$ (1,717)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	$ 1,990,957
NET CASH PROVIDED BY INVESTING ACTIVITIES	$ 1,990,957
Net Increase in Cash and Cash Equivalents	21,653,176
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,396,910
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 104,050,086
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Net Operating Loss	$ (1,439,915)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	7,755,592
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	32,084
Increase/(Decrease) in Compensated Absences	(448)
Increase/(Decrease) in Payables to Grant Recipients	(433,635)
NET CASH USED BY OPERATING ACTIVITIES	$ 5,913,678

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, 2017, 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, 2017, which is collectible in fiscal year 2018. Loans receivable that were paid in full, prior to their due date, as of August 31, 2017, 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 was 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, 2017. 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 2017. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee – At June 30, 2017, there were no Program funds held by the Trustee, as all outstanding bonds were paid off.

3. Loans Receivable

As of June 30, 2017, the Program had 97 outstanding community loans that totaled $83,470,606. The outstanding balances of the 10 communities with the largest loan balances, which represent 49.7% of the total loans, were as follows:

Community	Outstanding Balance
Lincoln	$ 12,936,099
Sidney	5,924,476
MUD-Omaha	4,292,138
Auburn	3,826,399
Falls City	3,434,830
Blair	2,551,099
Alliance	2,517,165
Ogallala	2,117,687
Utica	2,011,470
Waverly	1,880,040
TOTAL	**$ 41,491,403**

4. Capital Assets

The Drinking Water SRF capital assets activity for the year ended June 30, 2017, was:

	Beginning Balance	Additions	Retirements	Ending Balance
Software Development In-Progress Loans and Grants Tracking System (LGTS)	$ 165,587	$ 29,440	$ -	$ 195,027

5. Bonds Payable

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

Short-Term Bonds – The proceeds of short-term revenue bonds are sometimes used by the Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants. Interest revenue from Program loans is pledged to pay off the bonds. During the fiscal year, the Program issued a $665,000 Short Term Bond and utilized $997,400 of administrative cash funds to meet their match requirements for the 2016 DWSRF grant.

6. Non-current Liabilities

Changes in non-current liabilities for the year ended June 30, 2017, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within 1 Year
Compensated Absences	$ 19,350	$ 0	$ 449	$ 18,901	$ 1,701

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, 2017. 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, 2017, 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	-
2014	8,845,000	8,569,915	
2015	8,681,560	8,601,332	80,228
2016	8,280,275	7,593,703	1,225,228
TOTAL	**$ 185,597,751**	**$179,362,159**	**$ 1,305,456**

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

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2017, was $29,440. The total amount utilized for LGTS as of June 30, 2017, was $195,027. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program which also utilizes the LGTS software.

8. <u>Loan Fees Administration</u>

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. <u>Interest on Fund Balance – State Operating Investment Pool</u>

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. <u>Operating Expenses</u>

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:

<u>Administrative Costs from Fees</u>

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, 2017, employees contributed $11,208, and the Agency contributed $17,484. 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.

PROGRAM INFORMATION SECTION

A. Fund Activities

1. Loan and Investment Status

The fund has a loan portfolio containing $229,377,695 in total loan allocations, of which $123,479,346 was repaid; $83,470,606 is outstanding, leaving $22,427,743 still to be disbursed. Details on the Fund portfolio of 224 loans are in Attachment 1. The blended interest rate on the State Fiscal Year (SFY) 2017 outstanding loan balance is 2.21%. The result was an overall 8.3 basis point decrease from SFY 2016. The blended rate will decrease again over the next year.

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

The DWSRF entered into eleven binding commitments in order to provide financial assistance to PWS projects totaling $10,492,331 in the past fiscal year. Of that amount, disadvantaged communities received $1,321,520 in forgiveness funding. All of the minimum grant conditions for additional subsidization (e.g., principal forgiveness) and the Green Project Reserve (GPR) (e.g., water meters), for all open capitalization grants were met.

Attachment 2 provides information showing the loan agreements entered into during SFY 2017 by quarter and shows the cumulative binding commitment amount since the program initiation. The requirement is to allocate 100% of the capitalization grant and required state match, less set-asides, within one year of receiving the grant payment. The cumulative requirement is $193,211,377. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of $281,123,945 or 145.50% of the required amount.

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

The program is now utilizing the Administration cash fund for most of the salaries and associated expenses of personnel administering the DWSRF program and is not presently exercising this set-aside option for staffing. However, funds were reserved from the most recent capitalization grant for implementation of the Loan and Grant Tracking Software (LGTS), a comprehensive software application now fully online, that will be designed specifically for Nebraska's DWSRF to track and manage all aspects of program loans, capital contributions, and bond issuance and repayment.

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

- 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.

Funds from the Administration Cash Fund paid salaries and associated expenses of personnel administering the DWSRF program at NDEQ. 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 2017 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 12 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, 2016 through June 30, 2017, NeRWA, under the technical, financial and managerial contract, made system visits with an average of twenty-two (22) contacts per month for a total of two-hundred forty-one (260) contacts involving two-hundred eighteen (240) PWSs. Included in the contacts are thirteen (13) board/council training sessions presented by NeRWA.

In SFY 2017, Field Services representatives performed 428 Routine Sanitary Surveys (RSS) and 73 Follow-up surveys. The normal rotation for sanitary surveys is every three years for Community and Non-Transient Non-Community systems and every five years for Transient Non-Community systems. There were 217 Community, 48 Non-Transient, and 163 Transient Non-Community Routine Sanitary Surveys performed. The numbers of deficiencies found are as follows:

<u>Community Systems</u>:
Significant: 491 Minor: 176
A total of 667 deficiencies. Average of ~3.1 significant or minor deficiencies per system.

<u>Non-Transient Non-Community Systems (NTNC)</u>:
Significant: 70 Minor: 24
A total of 94 deficiencies. Average of ~2 significant or minor deficiency per system.

<u>Transient Non-Community Systems</u>:
Significant: 290 Minor: 109
A total of 399 deficiencies. Average of ~2.4 significant or minor deficiencies per system.

The vast majority of these are record keeping related deficiencies. Of the 1,160 significant and minor deficiencies found in SFY 2017 there are 109 left to still be corrected. This means that for SFY 2017 Nebraska had 90.6% deficiency correction rate. There are 42 PWSs that had a RSS in SFY 2017 that still have at least one outstanding deficiency. Ninety percent of the PWSs have fully corrected all deficiencies that were found. With increased attention being paid to sanitary survey deficiencies, we fully expect the deficiency correction number to be close to 95% in SFY 2018. Utilizing the Safe Drinking Water Information System (SDWIS) database, the State can effectively compare survey and deficiency data.

Although delayed from a year ago, the proposed change in strategy still remains, the program will still keep track of deficiencies but put more emphasis on getting the number of violation 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

NDHHS-DPH held ten water operator training courses applicable to various grade levels during SFY 2017. Water operator licenses were issued to 144 individuals. The number issued per license grade is as follows:

Grade I - 1 license
Grade II - 4 licenses
Grade III - 18 licenses
Grade IV - 121 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 2016 Capitalization Grant to administer Nebraska's Public Water Supply Program during SFY 2017. That amount included $403,300 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 2017 was $1,578,840) and for review of plans ($206,707 received in SFY 2017).

The total of State funding available for one-to-one match to the $1,234,500 was $2,291,574.

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

A. Land Acquisition for Source Water Protection

Funds potentially available were not used for land acquisition. The funds were primarily used for drinking water facility loans. The 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 is 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, 2017, a cumulative 113 PWSs have completed state-approved wellhead protection plans and three plans are awaiting final approval.

Beginning with FY 2003, approximately $200,000 of the 15% DWSRF set-aside had been used annually for Source Water Protection granted projects. This amount was reduced to $100,000 beginning in FFY 2007. The communities of Gordon, Syracuse and Gordon were selected to receive Source Water Grants totaling $100,000 from the 2017 Capitalization Grant. 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.

Unutilized DWSRF 15% set-aside 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 optical data 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. Five grant awards were made in SFY 2017 totaling $75,000, with three to high priority ranked communities planning to address compliance with drinking water standards. In addition, the program awarded two grants as part of a pilot program, wherein non-public health projects that are deemed likely ready to proceed with construction were offered planning grant funds. The purpose of these grants will be to assist in augmenting the ranking system criteria to include funding for non-public health projects on a permanent basis.

Since its inception in SFY 2002, the DWSRF has awarded planning grants to 126 communities for a total of $1,615,320.

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 2017. The maximum grant award was $10,000, with a 10% match required on all awards. The majority of that funding was awarded last fiscal year resulting in the following types of security improvements being made to public water systems being installed:

- Alarms/Cameras 4
- Backup Power 6
- Buildings/Doors/etc. 4
- Fencing/Lighting 7
- Mapping 19
- Chlorinator 1

Total 41

E. Capacity Development

NDHHS-DPH continues to use this set-aside to fund one FTE staff. That position administers the Public Water System Capacity Development Program for NDHHS-DPH. The position includes oversight and on-going implementation of the State's Capacity Development strategy, writing and administering contracts that utilize DWSRF 2% set-aside monies, and writing and submitting all necessary reports and other documents required as part of this program. The program coordinator held 26 presentations involving asset management, capacity development, drought mitigation, and water distribution system history for PWSs.

7. Match Discussion

The ratio for match purposes is initially 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, 2017 the ACH draw was $162,269,234 and the match disbursement was $35,027,781 for an ACH draw as a percentage of grant plus match disbursements ratio of 82.25%. This ratio indicates that the state has overmatched on this requirement.

For SFY 2017, 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 two PWS projects during SFY 2017. 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 Aurora and Fort Calhoun.

FFATA entries were made for Adams, Aurora, Kearney and Springfield for the FFY 16 grant, and one entry for Kearney to complete the FFY 14 grant entry. The FFY 15 grant was completed last year. Several large loans are planned to satisfy the FFATA requirements for the upcoming FFY 17 grant. Also, project signs were provided to all the FFY 16 grant identified projects.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2017 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 2017. With the bottoming out of market interest rates, 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 eleven loans closed during SFY 2017. Of the eleven loans, four of the loans were for high priority status projects including three loans to address long-term concerns with nitrates and one to provide a backup well for a small community.

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 2017 with the DWSRF met this goal. Descriptions of the individual projects are provided in Attachment 4.

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

Priority points were given to Adams, Aurora, and Springfield to address nitrate issues.

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

See responses to number 3. Of significant note, funding was provided to the Kenesaw through the Green Project Reserve to install water meters on all service connections. This was previously an un-metered water system. 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.

Nitrate issues were addressed in projects in Adams, Aurora, and Springfield.

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

Ten of the eleven systems that closed loans in SFY 2017 with the DWSRF were below 10,000 population, allowing the program to easily meet this requirement.

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

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

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

As suggested last year, this goal was fully evaluated, and dropped from being considered as a program initiative, as there is not a major need in the State. It was replaced with a new short-term goal focusing on the replacement of aging water infrastructure, most notably distribution system upgrades, throughout the State.

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY 2017 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 DWSRF, the program has tried to provide the lowest reasonable interest rate loans for projects that address human health problems. Reflective of recent economic concerns, rates were maintained at 2% across the board this fiscal year. This structure will ensure that the DWSRF will serve as a long-term source of funding by judicious use and management of its assets and by realizing an adequate rate of return with consideration for current inflation rates. Disbursements have been completed with 100% of the state match funds drawn first, prior to any request for associated capitalization grant funds. It is further anticipated that a partial cash match will be made for the next capitalization grant, which would further cement the long-term financial footing of the fund.

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

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

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

In SFY 2017, three of the eleven loan agreements were made to either address or proactively mitigate future public health issues. In addition, through the WWAC monthly meetings, eligible projects are discussed by the participating State and Federal agencies and evaluated for the health-related issues being addressed, project alternatives, cost-effectiveness, and long-term solution for water systems. See Section C below for additional details.

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

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

5. To 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 has provided low-interest loans and some forgiveness each year of the program since its inception. With the continued mandatory subsidization requirement of not less than 20% up to 30% with the FFY 2016 and upcoming 2017 capitalization grants, the ability for the program to provide affordable financing continued to increase this past fiscal year. In addition, other agencies' participation in the WWAC include the Nebraska Department of Economic Development, which administers the Community Development Block Grant program, and the USDA-Rural Development, which administers the Business and Community Programs, providing loans and grants to non-profit organizations in rural areas. These programs have provided state and/or federal financial assistance to make drinking water infrastructure projects affordable in the State.

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 2017 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 14, 2016. More detailed project information for the loans closed in SFY 2017 is provided in Attachment 4, followed by a brief synopsis of the SFY 2017 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 SFY. Below is a summary of the known status for each of the high priority projects for the systems that made contact with the NDHHS-DPH DWSRF Coordinator during the past fiscal year, starting first with the SFY 2017 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

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

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

Hastings, City of – It was determined that they will rely on CWSRF assistance in SFY 2018.

Laurel, City of – Due to decreasing selenium levels in their well, this project will not be constructed.

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

Milford, City of – Will fund their new well project through the DWSRF in SFY 2018.

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

Plattsmouth, City of – They are completing a water study, wherein the scope of their project will be determined. They may choose to fund their project through the DWSRF in SFY 2018.

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

<u>Planning List Projects</u>

Adams, Village of – Closed a loan with the DWSRF to fund their project.

Alexandria, Village of – The scope of their project is expanding to include a backup supply well.

Aurora, City of – The City is developing a second replacement well project due to increasing levels of nitrates.

Benedict, Village of – Completed a Preliminary Engineering Report, is considering installing a blending well to address increasing levels of nitrates, which will likely be funded by USDA.

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

Cairo, Village of – The Village is developing a second replacement well project due to increasing levels of arsenic.

Campbell, Village of – Will make general improvements to the water system, likely to be funded through USDA assistance.

Cedar Bluffs, Village of – Is preparing an engineering report for the construction of a replacement well due to arsenic concerns.

Cedar-Knox RWD – Has hired an engineer to develop a treatment plant improvements project to address their Disinfection Byproducts Administrative Order (A.O.).

Clarkson, City of – Closed a loan with the DWSRF to fund their project.

Edgar, City of – Has hired an engineer to develop a treatment plant project to address their Nitrates A.O.

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

Grand Island, City of – Chose to privately fund their water tower project.

Hartington, City of – Closed a loan with the DWSRF to fund their project.

Lindsay, Village of – Is developing an engineering report for the construction of a replacement water tower and mains.

Lodgepole, Village of – Is developing an engineering report for the construction of a water treatment plant due to Arsenic.

Martinsburg, Village of – Is developing an engineering report for the construction of a new supply well to address a Uranium A.O.

Mead, Village of – Is planning to construct a water treatment plant, which will be funded by the USDA-RD, due to a change in their funding process.

Milford, City of – Is planning to construct a new water supply well, which will be funded by the DWSRF in SFY 2018.

Oakdale, Village of – Is planning to construct a back-up supply well, which will be funded by the USDA-RD.

O'Neill, City of – Is planning to construct a replacement water tower, which will be funded by the DWSRF in SFY 2018.

Pierce, City of – Is planning to construct a replacement water well, which will be funded by the DWSRF in SFY 2018.

Wauneta, Village of – Is planning to construct a replacement water supply well(s), which will be submitted to the WWAC to address their Arsenic A.O.

Wisner, City of – Is planning to construct a replacement water well and water tower, which will likely be funded by the DWSRF in SFY 2018.

North Loup and Wood Lake have completed their projects through DWSRF funding, and were brought back into compliance with their enforcement actions previously issued by NDHHS-DPH. Benkelman was also completed, through USDA financial assistance.

The communities of Clay Center, Hyannis, Lebanon and Wisner 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. A pilot program to provide planning grants to communities, which would fall under the categories being evaluated, was started in SFY 2017 and will continue into the next fiscal year.

PROJ #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311223	Adams		P	209,831.00	209,831.00	0.00	2.75	0.00		
D311613	Adams	FFATA		3,065,853.00	0.00	0.00	2.00	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	51,586.33	186,767.67	2.00	373,535.34		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	42,637.56	108,240.44	2.00	216,480.88		
D311496	Alliance	ARRA	F	3,513,951.00	996,785.51	2,517,165.49	2.00	5,034,330.98		
D311511	Alliance		F	595,224.00	182,076.21	413,147.79	2.00	826,295.58		
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	675,103.06	3,826,398.94	2.30	8,800,717.56		
D311004	Aurora		P	300,000.00	300,000.00	0.00	2.80	0.00		
D311495	Aurora		P	226,733.00	226,733.00	0.00	3.00	0.00		
D311553	Aurora	FFATA	F	472,387.00	0.00	472,387.00	2.00	944,774.00		
D311563	Aurora	GP11	F	198,122.00	198,122.00	0.00	2.00	0.00		
D311226	Bancroft		P	591,000.00	591,000.00	0.00	2.50	0.00		
D311227	Barneston		P	32,794.00	32,794.00	0.00	2.50	0.00		
D311091	Bassett		F	138,342.00	85,579.15	52,762.85	2.50	131,907.13		
D311005	Bayard	ARRA	F	112,065.00	36,866.45	75,198.55	2.00	150,397.10		
D311567	Bayard		F	188,676.00	19,199.27	169,476.73	2.00	338,953.46		
D311147	Beatrice		P	826,223.00	826,223.00	0.00	3.18	0.00		
D311006	Beaver Lake	UNPL	F	3,276,647.00	1,637,994.86	1,638,652.14	4.00	6,554,608.56		
D311389	Bee		F	247,311.00	21,681.81	225,629.19	2.00	451,258.38		
D311516	Bellwood	ARRA	F	142,924.00	36,758.24	106,165.76	2.00	212,331.52		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311073	Benedict		F	455,000.00	77,071.57	377,928.43	3.42	1,292,515.23		
D311142	Bennet	ARRA	P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet		F	612,697.00	173,072.12	439,624.88	2.00	879,249.76		
D311228	Big Springs		P	851,000.00	851,000.00	0.00	2.50	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	243,487.71	2,551,099.29	2.25	5,739,973.40		
D311131	Bloomfield		P	203,361.00	203,361.00	0.00	3.00	0.00		
D311491	Bloomfield		P	174,822.00	174,822.00	0.00	2.75	0.00		
D311093	Bloomington		P	151,697.00	151,697.00	0.00	1.00	0.00		
D311094	Blue Hill		P	459,656.00	459,656.00	0.00	3.00	0.00		
D311132	Boyd Cnty RWD 2		P	822,000.00	822,000.00	0.00	3.30	0.00		
D311288	Bradshaw	ARRA	P	175,669.00	175,669.00	0.00	2.00	0.00		
D311081	Brady		F	365,547.00	144,102.06	221,444.94	3.30	730,768.30		
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	58,382.85	21,617.15	2.75	59,447.16		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	488,823.92	1,333,398.08	2.62	3,493,502.97		
D311009	Bruning		P	483,571.00	483,571.00	0.00	3.03	0.00		
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	213,214.07	6,285.93	3.00	18,857.79		
D311561	Brunswick		F	81,658.00	12,317.92	69,340.08	2.00	138,680.16		
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo			536,560.00	47,256.53	240,189.47	2.25	540,426.31		
D311456	Carroll	GP10	F	180,380.00	32,069.64	148,310.36	2.00	296,620.72		
D311159	Cedar-Knox (L&C NRD)		P	249,000.00	249,000.00	0.00	3.00	0.00		
D311524	Cedar-Knox (L&C NRD)		P	67,112.00	67,112.00	0.00	2.00	0.00		
D311012	Central City		F	387,572.00	231,094.48	156,477.52	2.75	430,313.18		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311603	Central City		F	434,007.00	27,680.18	406,326.82	2.00	812,653.64		
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	132,315.07	172,684.93	2.50	431,712.33		
D311509	Clarks		F	516,836.00	121,286.57	395,549.43	2.00	791,098.86		
D311014	Clarkson			150,000.00	0.00	0.00	2.00	0.00		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	**GP10**	F	1,740,472.00	135,489.58	1,604,982.42	2.55	4,092,705.17		
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	170,664.79	66,197.21	3.00	198,591.63		
D311018	Cuming Cnty RWD 1		F	643,981.00	427,150.74	216,830.26	3.08	667,837.20		
D311457	Cuming Cnty RWD 1		F	323,435.00	121,725.54	201,709.46	2.75	554,701.02		
D311506	Dalton	**ARRA**	F	197,024.00	55,654.94	141,369.06	2.00	282,738.12		
D311167	Davenport		P	440,000.00	440,000.00	0.00	3.40	0.00		
D311169	David City		F	626,435.00	423,866.25	202,568.75	2.51	508,447.56		
D311569	Daykin		F	450,773.00	38,606.76	412,166.24	2.00	824,332.48		
D311555	Denton		F	522,208.00	91,317.24	430,890.76	2.00	861,781.52		
D311102	DeWitt		P	650,000.00	650,000.00	0.00	2.50	0.00		
D311238	Dodge		F	56,156.00	37,051.67	19,104.33	2.51	47,951.87		
D311240	Dorchester	**GP10**	F	1,444,796.00	237,800.41	1,206,995.59	2.00	2,413,991.18		
D311021	Duncan		P	465,000.00	465,000.00	0.00	4.30	0.00		
D311609	Edgar	**GP**		218,325.00	3,177.40	210,884.60	2.00	421,769.20		
D311243	Elba		P	702,000.00	702,000.00	0.00	2.00	0.00		
D311571	Elgin			1,114,500.00	0.00	204,419.00	2.00	408,838.00		
D311022	Emerson		P	380,010.00	380,010.00	0.00	3.03	0.00		
D311302	Fairbury		P	694,436.00	694,436.00	0.00	2.50	0.00		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311176	Fairmont		F	183,582.00	67,007.51	116,574.49	3.54	412,673.69		
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	71,075.33	3,434,829.67	2.00	6,869,659.34		
D311536	Firth		F	326,301.00	92,409.89	233,891.11	2.00	467,782.22		
D311615	Fort Calhoun			643,800.00	0.00	0.00	2.00	0.00		
D311512	Friend	ARRA	F	208,508.00	64,311.33	144,196.67	2.00	288,393.34		
D311535	Fullerton		F	366,000.00	103,386.98	262,613.02	2.00	525,226.04		
D311575	Garland	FFATA	F	919,150.00	34,936.18	884,213.82	2.00	1,768,427.64		
D311026 20 yr	Gering	BASE	P	445,110.00	445,110.00	0.00	3.24	0.00		
D311026 30 yr	Gering	ARRA	P	6,252,963.00	6,252,963.00	0.00	2.30	0.00		
D311245	Giltner		P	795,462.00	795,462.00	0.00	3.26	0.00		
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00		
D311214	Grafton		P	207,998.00	207,998.00	0.00	3.00	0.00		
D311104	Grant		P	273,674.00	273,674.00	0.00	3.00	0.00		
D311595	Grant	FFATA		1,725,384.00	0.00	1,630,420.00	2.00	3,260,840.00		
D311467	Gresham		P	88,119.00	88,119.00	0.00	2.00	0.00		
D311309	Gretna		F	487,613.00	10,271.02	477,341.98	2.00	954,683.96		
D311028	Gurley		F	173,280.00	74,558.25	98,721.75	3.74	369,219.35		
D311566	Haigler		F	117,433.00	10,070.21	107,362.79	2.00	214,725.58		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311552	Hartington	GP11	F	375,924.00	7,939.35	367,984.65	2.00	735,969.30		
D311547	Hay Springs		F	245,667.00	35,082.30	210,584.70	2.50	526,461.75		
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00		
D311521	Hickman		P	2,196,778.00	2,196,778.00	0.00	2.00	0.00		
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00		
D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00		
D311544	Holstein	GP10	F	216,097.00	46,522.58	169,574.42	2.00	339,148.84		
D311602	Holstein		F	104,000.00	4,410.46	99,589.54	2.00	199,179.08		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311033	Hubbard		P	154,778.00	154,778.00	0.00	3.79	0.00		
D311109	Humboldt		F	1,896,065.00	176,381.99	1,719,683.01	2.30	3,955,270.92		
D311545	Humphrey		P	1,652,865.00	1,652,865.00	0.00	2.25	0.00		
D311067	Jackson		F	109,339.00	88,516.38	20,822.62	3.00	62,467.86		
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	60,502.47	152,424.53	2.00	304,849.06		
D311589	Kearney	**FFATA**	F	301,029.00	25,927.85	275,101.15	2.00	550,202.30		
D311607	Kearney	**FFATA**		1,500,000.00	0.00	568,769.00	2.00	1,137,538.00		
D311576	Kenesaw			714,843.00	0.00	526,254.00	2.00	1,052,508.00		
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	100,506.40	256,759.60	2.00	513,519.20		
D311564	Leigh		F	257,268.00	33,249.37	224,018.63	2.00	448,037.26		
D311548	Lincoln	**U/FFATA**	F	14,977,829.00	2,041,730.43	12,936,098.57	2.25	29,106,221.78		
D311570	Lindsay	**GP11**	F	487,487.00	40,508.74	446,978.26	2.00	893,956.52		
D311188	Louisville		F	843,275.00	341,024.77	502,250.23	3.50	1,757,875.81		
D311562	Loup City	**GP10**	F	149,137.00	22,690.44	126,446.56	2.00	252,893.12		
D311317	Lyons		P	695,000.00	695,000.00	0.00	2.50	0.00		
D311220	Madison Cnty SID #3		P	491,843.00	491,843.00	0.00	3.51	0.00		
D311600	Maxwell		F	56,488.00	11,173.69	45,314.31	2.00	90,628.62		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		P	9,922,000.00	9,922,000.00	0.00	2.80	0.00		
D311560	McCook	**FFATA**	F	1,320,072.00	167,971.19	1,152,100.81	2.00	2,304,201.62		
D311130	MUD - Omaha		P	755,593.00	755,593.00	0.00	3.00	0.00		
D311498	MUD - Omaha	**U/ARRA**	F	5,797,062.00	1,504,923.96	4,292,138.04	2.00	8,584,276.08		
D311256	Niobrara		F	175,000.00	104,025.96	70,974.04	3.00	212,922.12		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
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	44,139.64	112,143.36	2.00	224,286.72		
D311565	North Loup	FFATA	F	1,303,008.00	58,333.36	1,244,674.64	2.00	2,489,349.28		
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	24,702.68	80,180.32	2.00	160,360.64		
D311138	Odell		F	103,293.00	68,584.77	34,708.23	3.03	105,165.94		
D311044	Ogallala	FFATA	F	2,175,295.00	57,608.33	2,117,686.67	2.00	4,235,373.34		
D311500	Osceola	ARRA	F	270,772.00	76,487.12	194,284.88	2.00	388,569.76		
D311533	Osceola		F	938,713.00	180,716.75	757,996.25	2.25	1,705,491.56		
D311605	Oshkosh	FFATA		3,018,750.00	0.00	190,752.00	2.00	381,504.00		
D311585	Osmond	FFATA		621,790.00	8,140.05	355,873.95	2.00	711,747.90		
D311591	Overton		F	624,713.00	40,784.29	583,928.71	2.00	1,167,857.42		
D311198	Palisade		P	808,000.00	808,000.00	0.00	3.00	0.00		
D311080	Papio-Missouri River NRD		P	338,800.00	338,800.00	0.00	4.00	0.00		
D311614	Papio-Missouri River NRD		F	350,000.00	0.00	350,000.00	2.00	700,000.00		
D311049	Paxton		P	1,131,000.00	1,131,000.00	0.00	3.00	0.00		
D311326	Pender		F	1,028,735.00	521,531.47	507,203.53	2.50	1,268,008.83		
D311505	Phillips	ARRA	F	166,643.00	47,072.97	119,570.03	2.00	239,140.06		
D311581	Phillips			373,750.00	15,050.28	355,879.72	2.00	711,759.44		
D311543	Pickrell		F	182,702.00	28,257.24	154,444.76	2.00	308,889.52		
D311532	Platte Center		F	505,371.00	105,874.23	399,496.77	2.25	898,867.73		
D311051	Plattsmouth		P	1,491,112.00	1,491,112.00	0.00	3.00	0.00		
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	145,780.36	727,176.64	2.30	1,672,506.27		
D311513	Pleasant Dale	ARRA	F	106,126.00	32,434.59	73,691.41	2.00	147,382.82		
D311596	Pleasanton		F	212,923.00	4,802.50	208,119.50	2.00	416,239.00		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
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	983,294.36	73,765.64	3.00	221,296.92		
D311594	Riverdale			200,275.00	0.00	165,067.00	2.00	330,134.00		
D311542	Rogers		**F**	77,280.00	18,221.97	59,058.03	2.00	118,116.06		
D311606	Sarpy Cnty SID #29		**F**	572,010.00	180,600.75	391,409.25	2.00	782,818.50		
D311053	Schuyler	**ARRA**	**P**	1,560,451.00	1,560,451.00	0.00	2.00	0.00		
D311334	Scotia		**P**	467,415.00	467,415.00	0.00	2.57	0.00		
D311573	Scribner	**FFATA**		2,800,000.00	13,082.92	505,463.08	2.00	1,010,926.16		
D311501	Shelby	**ARRA**	**F**	177,707.00	46,098.64	131,608.36	2.00	263,216.72		
D311537	Shelby		**F**	1,023,041.00	542,134.53	480,906.47	2.00	961,812.94		
D311514	Shelton	**GP11/FFATA**	**F**	895,481.00	153,938.64	741,542.36	2.00	1,483,084.72		
D311056	Sidney		**P**	1,156,000.00	1,156,000.00	0.00	3.00	0.00		
D311351	Sidney		**F**	7,975,000.00	5,266,072.03	2,708,927.97	2.52	6,826,498.48		
D311604	Sidney			7,400,000.00	0.00	3,215,548.00	2.00	6,431,096.00		
D311057	South Sioux City		**F**	267,732.00	247,007.38	20,724.62	3.00	62,173.86		
D311268	South Sioux City		**F**	1,331,150.00	1,151,444.76	179,705.24	2.79	501,377.62		
D311584	South Sioux City	**FFATA**		3,128,000.00	0.00	0.00	2.00	0.00		
D311611	Springfield	**FFATA**		889,600.00	0.00	0.00	2.00	0.00		
D311559	St. Helena		**F**	233,025.00	35,094.28	197,930.72	2.00	395,861.44		
D311218	St. Paul	**ARRA**	**P**	606,000.00	606,000.00	0.00	2.38	0.00		
D311139	Stamford		**P**	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		**F**	100,000.00	33,945.68	66,054.32	2.83	186,933.73		
D311058	Stanton		**P**	344,991.00	344,991.00	0.00	3.00	0.00		
D311059	Stanton Cnty SID #1 - Woodland Park		**F**	353,805.00	197,300.03	156,504.97	4.00	626,019.88		
D311146	Stapleton		**F**	95,953.00	77,666.10	18,286.90	3.01	55,043.57		
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	1,378,175.97	119,548.03	2.00	239,096.06		

PROJECT #	COMMUNITY NAME	PROJ INDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	Principal Repayments	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311502	Sutherland	**ARRA**	**F**	1,180,291.00	306,524.92	873,766.08	2.02	1,765,007.48		
D311089	Tecumseh		**F**	478,982.00	373,151.19	105,830.81	3.00	317,492.43		
D311077	Tekamah		**F**	1,247,818.00	758,033.97	489,784.03	3.00	1,469,352.09		
D311550	Terrytown	**GP10**		1,288,000.00	0.00	0.00	2.00	0.00		
D311590	Tobias		**F**	251,677.00	9,512.92	242,164.08	2.00	484,328.16		
D311273	Trenton			500,000.00	0.00	466,985.00	2.00	933,970.00		
D311068	Utica		**P**	458,699.00	458,699.00	0.00	3.00	0.00		
D311577	Utica			2,240,000.00	43,722.06	2,011,469.94	2.00	4,022,939.88		
D311126	Valentine		**P**	450,000.00	450,000.00	0.00	3.00	0.00		
D311593	Valley		**F**	562,131.00	47,254.02	514,876.98	2.00	1,029,753.96		
D311140	Waco		**P**	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	**ARRA**	**F**	299,274.00	100,194.16	199,079.84	2.00	398,159.68		
D311275	Wakefield		**F**	960,000.00	36,419.95	923,580.05	2.00	1,847,160.10		
D311071	Waterloo		**P**	297,522.00	297,522.00	0.00	3.36	0.00		
D311375	Wauneta		**F**	262,004.00	43,394.71	218,609.29	2.11	461,265.60		
D311276	Wausa		**F**	289,083.00	167,873.73	121,209.27	3.00	363,627.81		
D311527	Wausa		**F**	260,814.00	48,861.98	211,952.02	2.23	472,653.00		
D311582	Waverly	**U/FFATA**	**F**	2,056,127.00	176,087.41	1,880,039.59	2.00	3,760,079.18		
D311519	Wayne	**ARRA**	**F**	762,414.00	197,984.67	564,429.33	2.00	1,128,858.66		
D311608	Weeping Water	**FFATA**		560,000.00	11,434.40	459,400.60	2.00	918,801.20		
D311558	West Knox RWD	**FFATA**		886,054.00	45,248.47	658,525.53	2.50	1,646,313.83		
D311592	Wisner	**FFATA**		113,073.00	9,746.34	103,326.66	2.00	206,653.32		
D311583	Wood Lake		**F**	75,820.00	1,599.16	74,220.84	2.00	148,441.68		
D311066	Wood River		**P**	424,100.00	424,100.00	0.00	3.68	0.00		
D311497	Wymore	**ARRA**	**F**	1,489,829.00	420,495.55	1,069,333.45	2.00	2,138,666.90		
D311520	York	**U/ARRA**	**F**	2,334,605.00	656,863.85	1,677,741.15	2.00	3,355,482.30		
	LOAN TOTALS			**229,377,695.00**	**123,479,345.62**	**83,470,606.38**		**184,432,741.60**	**2.2090**	**2.209**

ATTACHMENT 1
DWSRF LOAN INVESTMENT STATUS REPORT

SFY 2017
ANNUAL REPORT

	PROJECT IDENTIFIER CODES:									

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

ATTACHMENT 2
DWSRF BINDING COMMITMENTS

			State Fiscal Year 2016				State Fiscal Year 2017			
Community Name	**Project #D31**	**Small System (<10,000)**	**1st QTR**	**2nd QTR**	**3rd QTR**	**4th QTR**	**1st QTR**	**2nd QTR**	**3rd QTR**	**4th QTR**
Central City	1603	X	723,400							
Grant	1595	X	2,156,730							
Holstein	1602	X	130,000							
Oshkosh	1605	X	4,025,000							
Osmond	1585	X	956,600							
Overton	1591	X	715,000							
Phillips	1581	X	560,000							
Pleasanton	1596	X	400,000							
Falls City	1597	X		5,334,412						
Lindsay Amd #1	1570	X		82,168						
Sarpy Cnty SID #29	1606	X		670,000						
Utica Amd #1	1577	X		1,430,000						
Edgar	1609	X			291,100					
North Loup Amd #1	1565	X			250,000					
Sidney	1604	X			7,500,000					
Weeping Water	1608	X			700,000					
Elgin Amd #1	1571	X				28,413				
Hartington	1552	X				500,000				
Gretna	1309	X					504,215			
Kenesaw	1576	X					835,000			
Riverdale	1594	X					250,000			
Adams	1613	X						3,832,316		
Aurora	1553	X						800,000		
Clarkson	1014	X						150,000		
Fort Calhoun	1615	X						643,800		
Kearney	1607							1,500,000		
Papio-Missouri River NRD	1614							350,000		
Phillips Amd #1	1581	X						15,000		
Springfield	1611	X						1,112,000		
Trenton	1273	X						500,000		
(1) BINDING COMMITMENT TOTALS			9,666,730	7,516,580	8,741,100	528,413	1,589,215	8,903,116		
(2) CUMULATIVE BINDING COMMITMENTS			253,845,521	261,362,101	270,103,201	270,631,614	272,220,829	281,123,945	281,123,945	281,123,945
FY BINDING COMMITMENT TOTALS					FY16:	26,452,823			FY17:	10,492,331
(3) REQUIRED BINDING COMMITMENT*			8,577,600				8,679,460			
(4) CUMULATIVE REQUIRED AMOUNT			184,531,917	184,531,917	184,531,917	184,531,917	193,211,377	193,211,377	193,211,377	193,211,377
(5) BC AS % OF REQ'D BC AMOUNT			137.56	141.64	146.37	146.66	140.89	145.50	145.50	145.50

*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, 2015 THROUGH JUNE 30, 2016

Issued on March 16, 2017

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

TABLE OF CONTENTS

BACKGROUN D

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. 2016). 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, 2016, the EPA had awarded $174 million in capitalization grants to the State, plus $19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this $174 million required the State to contribute approximately $35 million in matching funds. Since the inception of the Program the State has appropriated $2.33 million to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds and the use of Administrative Cash Funds.

The Program is administered by the 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.

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

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

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

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SUMMARY OF COMMENTS

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

1. ***Financial Statement Errors:*** The Agency made errors in preparing its financial statements. Current loans receivable were understated by $5,575,224, and non-current loans receivable were overstated by the same amount. Fiscal year ended June 30, 2015, bond activity was included on the fiscal year ended June 30, 2016, Statement of Cash Flows, resulting in improper inclusion of a $1,035,855 line item for Receipts from Bond Issue (Short-Term) and a $1,035,855 line item for Repayment of Bond (Short-Term). Fiscal year expenditures, totaling $19,213, recorded in the accounting system subsequent to June 30, 2016, were not properly accrued. Amounts Due to Grant Recipients and Due from Federal Government, totaling $9,919, were not accrued. Accounts payable, totaling $4,633, in indirect costs were not accrued. Finally, the compensated absences liability was overstated by $9,849.

2. ***Administrative Fees:*** The Agency did not properly charge loan administrative fees based on actual outstanding loan balances. We noted a community was overcharged $1,403 when administrative fees were not adjusted for midstream disbursements occurring between billing cycles. Additionally, the Agency's method of calculating the fees was inconsistent with the method presented in loan contracts.

More detailed information on the above items is provided hereinafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department of Environmental Quality – Drinking Water State Revolving Fund Program to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Financial Statement Errors

During our review of the Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program (Program) trial balance and financial statements, we noted the following errors:

- The Agency's split of loans receivable between current and non-current on the Balance Sheet was incorrect. The Agency's procedure is to reflect as current loans receivable any principle payments owed during the upcoming fiscal year as well as any loans receivable that were paid off early, prior to their due date, as of August 31, 2016. However, we noted the Agency received a payoff in July 2016 that it failed to reflect as current loans receivable. As a result, current loans receivable were understated by $5,575,224, and non-current loans receivable were overstated by $5,575,224.

- The Agency included fiscal year ended June 30, 2015, bond activity on its fiscal year ended June 30, 2016, Statement of Cash Flows. This resulted in the Agency recording a $1,035,855 cash inflow as Receipts from Bond Issue (Short-Term) and a $1,035,855 cash outflow as Repayment of Bond (Short-Term). As the bond transactions occurred during the fiscal year ended June 30, 2015, both these line items should have been reported as $0.

- The Agency did not include two payments recorded as P9/J9 (prior-year payable) transactions in its P9/J9 payables total for the fiscal year ended June 30, 2016. This resulted in Accounts Payable & Accrued Liabilities on the Balance Sheet and expenditures on the Statement of Revenues, Expenses, and Changes in Net Position being understated by $19,213.

- The Agency did not include a loan forgiveness payment to a community in its grants payable total for fiscal year ended June 30, 2016, even though the expenses obligating the payment were incurred prior to June 30, 2016. This resulted in Due to Grant Recipients on the Balance Sheet and expenses on the Statement of Revenues, Expenses, and Changes in Net Position being understated by $9,919. Additionally, as the amount was payable from Federal funds, the Agency should have also recorded a corresponding receivable from the Federal government and a revenue for this amount. As a result, the receivable Due from Federal Government and Capital Contributions – Federal Grants revenue were understated by $9,919.

- The Agency did not include indirect costs of $4,633 related to the June 13, 2016, to June 26, 2016, payroll period as a fiscal year ended June 30, 2016, accrual. The Agency paid the costs and recorded the entry as a journal entry in July 2016 but should have recorded the entry as a P9/J9 (prior-year payable) transaction. This resulted in Accounts Payable & Accrued Liabilities on the Balance Sheet and expenditures on the Statement of Revenues, Expenses, and Changes in Net Position being understated by $4,633.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Financial Statement Errors (Concluded)

- The Agency did not calculate its accrued compensated absences liability properly. It included a liability for one employee who was no longer working on the Program subsequent to the end of the fiscal year. Also, the Agency used all pay types (including leave) to calculate the percentage of time employees worked on the Program instead of using only direct hours worked on the Program. This caused errors in how employees' accrued leave was distributed between the Drinking Water and Clean Water State Revolving Fund Programs. As a result, Compensated Absences on the Balance Sheet and expenditures on the Statement of Revenues, Expenses, and Changes in Net Position were overstated by $9,949.

The APA discussed the above issues with the Agency, and audit adjustments were made to correct each error.

A good internal control plan and sound accounting practices require procedures to ensure accounting entries are accurate and complete for proper financial statement presentation. When such procedures are not in place, there is increased risk of materially misstated financial statements.

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

Agency Response: The agency attempted to capture the non-current loans and grant payments correctly but a misstep occurred with the LGTS search. In the future, the agency will save the LGTS and E1 search reports as of August 31st, YYYY to document the attempt. This same process will be used with indirect costs and accrued compensated absences, but E1 will be the sole source. According to the agency's knowledge, the financial statements reflect the corrected figures.

2. Administrative Fees

The Agency did not properly charge communities loan administrative fees based on actual outstanding loan balances. Additionally, the Agency's method of calculating the fees was inconsistent with the method presented in loan contracts.

Title 131 Nebraska Administrative Code (NAC) 8-004.04 states, "An administrative fee up to 1% may be assessed each year against the loan principal balance on the dates set by the Department, and payable on those dates[.]"

Generally, loan payments are made biannually and due on June 15 and December 15 of each year. The loan contracts state, "[A]n annual administrative fee of 1% per annum of the Loan Amount to be paid in semiannual installments of 0.5% of the Loan Amount outstanding on the date invoices are mailed in accordance with the Loan Repayment schedule . . . ."

COMMENTS AND RECOMMENDATIONS
(Concluded)

2. <u>Administrative Fees</u> (Concluded)

Per discussion with Agency staff, the administrative fee is charged based on the outstanding balance when the invoice is sent out, except when an off-cycle principal payment is received, in which case the administrative fee is manually calculated to account for the decrease in the outstanding balance. However, if the loan recipients receive any additional disbursements between invoice dates, the administrative fee is not calculated to take into consideration the change in balances during the period.

During testing of 12 loan repayments, we noted a community was billed an administrative fee of $5,603 on a $1,120,524 loan balance at the time the invoice was generated. However, the balance increased from $593,099 to $1,120,524 during the six-month invoice cycle due to various payments that the Agency made to the community. The Agency charged the administrative fee on the full $1,120,524 balance for the entire six-month period, causing the community to be overcharge by $1,403.

Sound business practices require that loan administrative fees be fairly charged based on the actual loan balances outstanding throughout the invoicing period. Additionally, the loan contract language should clearly outline how administrative fees will be assessed on the loan balance.

When loan fees are not properly calculated, there is an increased risk that loan fees will be overcharged or undercharged.

> We recommend the Agency implement policies and procedures to ensure that all loan administrative fees are fairly charged based on actual loan balance activity between invoicing cycles and that loan contracts state clearly how all fees will be calculated.

Agency Response: The agency agrees with the finding and has contacted Northbridge to correctly charge the admin fees during the invoice cycle. This math would include actual loan balances outstanding throughout the invoice period. Management is currently discussing an update to the loan contract language.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program as of and for the year ended June 30, 2016, 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, 2016, and the respective changes in financial position and cash flows 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, 2016, 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 10 through 13 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 7, 2017, on our consideration of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting and compliance.

Regulatory Requirements

In accordance with the *U.S. Office of Management and Budget (OMB) Compliance Supplement*, we have also issued our report dated March 7, 2017, 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.

Philip J. Olsen

Lincoln, Nebraska
March 7, 2017

Philip J. Olsen, CPA, CISA
Audit Manager

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, 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% or $11,077,670. This increase is primarily due to the drawn-down of available Federal grant funds totaling $10,896,814. Those funds were drawn down and loaned to approved communities.

Current assets increased by $22.9 million or 32.2%. This increase is attributed to cash and cash equivalents balance increasing by $17.9 million due to scheduled loan repayments and several large early loan payoffs. Additionally, the current portion of loans receivable increased by $4.9 million due to an early loan payoff made at the beginning of FY17.

Non-operating revenue decreased by $2.9 million or 19.0% from FY15 to FY16 due to the EPA requesting that older Federal Grant funds be drawn in FY15; otherwise, the Program would have given up capitalization grant funds. Thus, a larger amount of Federal funds was drawn in FY15 compared to FY16.

Changes in Net Investment in Capital Assets

The fiscal year over year comparison represents the accumulated amount invested in the development of the Loan and Grant Tracking System (LGTS). In FY15, the Program invested $68,890 in LGTS. In FY16 an additional $68,036 was invested in LGTS software development.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

NET POSITION

	2016	2015	% Change
Current Assets	$ 94,176,189	$ 71,233,932	32.2%
Non-current Assets	80,341,978	92,145,789	-12.8%
Total Assets	**174,518,167**	**163,379,721**	**6.8%**
Current Liabilities	624,761	558,974	11.8%
Non-current Liabilities	17,608	22,619	-22.2%
Total Liabilities	**642,369**	**581,593**	**10.4%**
Net Position:			
Net Investment in Capital Assets	165,587	97,551	69.7%
Unrestricted	173,710,211	162,700,577	6.8%
Total Net Position	**$ 173,875,798**	**$ 162,798,128**	**6.8%**

CHANGES IN NET POSITION

	2016	2015	% Change
Loan Fees Administration	$ 930,075	$ 991,220	-6.2%
Interest on Loans	2,224,924	2,351,966	-5.4%
Total Operating Revenues	**3,154,999**	**3,343,186**	**-5.6%**
Administration & Set-Asides	2,639,946	2,824,458	-6.5%
Loan Forgiveness	1,999,024	1,864,223	7.2%
Total Operating Expenses	**4,638,970**	**4,688,681**	**-1.1%**
Operating Income (Loss)	**(1,483,971)**	**(1,345,495)**	**-10.3%**
Federal Grants	10,896,814	14,267,341	-23.6%
Interest Revenue	1,664,827	1,608,595	3.5%
Bond Expenses	-	(364,744)	100%
Total Non-Operating Revenue (Expense)	**12,561,641**	**15,511,192**	**-19.0%**
Change in Net Position	**11,077,670**	**14,165,697**	**-21.8%**
Beginning Net Position July 1	**162,798,128**	**148,632,431**	**9.5%**
Ending Net Position June 30	**$ 173,875,798**	**$ 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.

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

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

The 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
BALANCE SHEET
June 30, 2016

		Enterprise Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury (Note 2)	$	82,396,910
Due from Federal Government		590,294
Interest Receivable		139,567
Loans Receivable (Note 3)		11,049,418
Total Current Assets		94,176,189
Noncurrent Assets:		
Loans Receivable (Note 3)		80,176,391
Capital Assets, Net (Note 4)		165,587
Total Noncurrent Assets		80,341,978
Total Assets	$	174,518,167
LIABILITIES		
Current Liabilities:		
Accounts Payable & Accrued Liabilities	$	189,385
Due to Grant Recipients (Note 1)		433,635
Compensated Absences (Note 5)		1,741
Total Current Liabilities		624,761
Noncurrent Liabilities:		
Compensated Absences (Note 5)		17,608
Total Noncurrent Liabilities		17,608
Total Liabilities	$	642,369
NET POSITION		
Net Investment in Capital Assets		165,587
Unrestricted		173,710,211
Total Net Position		173,875,798
Total Liabilities and Net Position	$	174,518,167

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, 2016

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	$ 930,075
Interest on Loans	2,224,924
Total Operating Revenues	3,154,999
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 9)	525,182
15% Source Water Assessment Program (Note 9)	782,058
2% Technical Assistance to Small Systems (Note 9)	116,667
10% Public Water Supply System (Note 9)	1,216,039
Loan Forgiveness (Note 9)	1,999,024
Total Operating Expenses	
	4,638,970
Operating Loss	
NONOPERATING REVENUES (EXPENSES)	
Capital Contributions - Federal Grants (Note 6)	10,840,203
Capital Contributions - Federal Grants - Capital Assets	56,611
Interest on Fund Balance - State Operating Investment Pool (Note 8)	1,664,827
Total Nonoperating Revenues (Expenses)	12,561,641
Change in Net Position	11,077,670
NET POSITION, JULY 1	162,798,128
NET POSITION, JUNE 30	$ 173,875,798

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, 2016

		Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers	$	18,615,007
Payments to Borrowers		(8,479,621)
Payments for Administration		(589,434)
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 Flows from Operating Activities		5,557,193
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Grants Received From the Environmental Protection Agency		10,714,570
Net Cash Flows from Noncapital Financing Activities		10,714,570
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Contributions		56,611
Purchase of Capital Assets		(68,036)
Net Cash Flows from Capital Financing Activities		(11,425)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments		1,623,354
Net Cash Flows from Investing Activities		1,623,354
Net Increase in Cash and Cash Equivalents		17,883,692
CASH AND CASH EQUIVALENTS, JULY 1		64,513,218
CASH AND CASH EQUIVALENTS, JUNE 30	$	82,396,910
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Loss	$	(1,483,971)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
(Increase)/Decrease in Loans Receivable		6,980,387
Increase/(Decrease) in Accounts Payable & Accrued Liabilities		(109,138)
Increase/(Decrease) in Compensated Absences		(5,507)
Increase/(Decrease) in Payables to Grant Recipients		175,422
Total Adjustments		7,041,164
NET CASH FLOWS FROM OPERATING ACTIVITIES	$	5,557,193

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2016

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.

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, and 68485.

- Drinking Water Administration Fund – Cash Fund 28630

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

The activity of these State of Nebraska funds has been combined and reported as an enterprise fund, which under governmental GAAP is a proprietary fund type. This fund type reflects transactions used to account for those operations that are financed and operated in a manner similar to a private business. The accounting for the Program's transactions in this manner is a requirement of the Environmental Protection Agency (EPA), as it and the 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.

1. <u>Summary of Significant Accounting Policies</u> (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, 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 10 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. <u>Summary of Significant Accounting Policies</u> (Continued)

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.

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.

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, 2018. The LGTS software is considered an intangible capital asset, and the Agency follows the capitalization policy set forth by the State of Nebraska for intangible capital assets, which requires capitalization of such assets when the cost of such asset is in excess of $100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the developmental phase and the software being put into production, and it will be computed using the straight-line method over the estimated useful life of the asset.

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.

3. Loans Receivable

As of June 30, 2016, the Program had 126 outstanding community loans that totaled $91,225,809. The outstanding balances of the 10 communities with the largest loan balances, which represent 54.9% of the total loans, were as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. **Loans Receivable** (Concluded)

Community	Outstanding Balance	
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:

	Beginning Balance As Restated	Additions	Retirements	Ending Balance
Software Development In-Progress				
Loans and Grants Tracking System (LGTS)	$ 97,551	$ 68,036	$ -	$ 165,587

5. **Non-current Liabilities**

Changes in non-current liabilities for the year ended June 30, 2016, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 24,856	$ -	$ 5,507	$ 19,349	$ 1,741

6. **Capital Contributions**

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. **Capital Contributions** (Concluded)

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	8,564,330	280,670
2015	8,681,560	2,843,390	5,838,170
2016	8,280,275	-	8,280,275
TOTAL	**$ 193,878,026**	**$179,356,574**	**$ 14,521,452**

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

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2016, was $68,036. The total amount utilized for LGTS as of June 30, 2016, was $165,587. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program, which also utilizes the LGTS software.

7. **Loan Fees Administration**

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. Interest on Fund Balance – State Operating Investment Pool

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

9. Operating Expenses

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

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

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

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

The following is an explanation of these categories:

Administrative Costs from Fees

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is deposited into a separate account and is used for administrative costs 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;

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Operating Expenses (Continued)

- 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. State Employees Retirement Plan (Plan)

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

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 will be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

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

For the fiscal year ended June 30, 2016, employees contributed $13,368, and the Agency contributed $20,854. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. 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.

11. Contingencies and Commitments

Risk Management – The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Agency, as part of the primary government for the State, participates in the State's risk management program. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State generally 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 with vehicular pursuit, which is insured for the first $5,000,000 of exposure per accident with a self-insured retention of $300,000 and $300,000 corridor retention. Motor vehicle liability is insured for $1,000,000 with a self-insured retention of $200,000, and with excess coverage of $250,000,000. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a $5,000 deductible for this coverage.

B. Life insurance for eligible employees.

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

D. Real and personal property on a blanket basis for losses up to $251,000,000, 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.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

11. Contingencies and Commitments (Concluded)

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.

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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, 2016, 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 7, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Additional items

We noted certain additional items that we reported to management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program in the Comments Section of this report as Comment Number 1 (Financial Statement Errors) and Comment Number 2 (Administrative Fees).

Nebraska Department of Environmental Quality's Response to Findings

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

Purpose of this Report

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

Philip J. Olsen

Lincoln, Nebraska — Philip J. Olsen, CPA, CISA
March 7, 2017 — 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 COMPLIANCE SUPPLEMENT

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

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

We have audited the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program for the year ended June 30, 2016.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by

the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program occurred. An audit includes examining, on a test basis, evidence about the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program. However, our audit does not provide a legal determination of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance.

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

In our opinion, the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over compliance with the types of requirements that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over compliance.

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

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

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

Lincoln, Nebraska
March 7, 2017

Philip J. Olsen, CPA, CISA
Audit Manager

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2017 LOANS				
PWS System	**Project Name**	**Project Description**	**Public Health Impact Description**	**Comments**
Adams, Village of	Replacement Well and Water Tower, Transmission Main and Distribution System Improvements	In April 2015, the Village's Engineer completed a Water Study that evaluated the siting of a replacement well with transmission main, as well as distribution system improvements and replacing the water storage tower. The public water system (PWS) consists of two municipal wells, a 50,000 gallon water storage tank and a distribution system, which is fed from blending point that originally was an ion exchange treatment plant (IX plant). The IX plant was primarily used to remove Nitrates from the oldest of the Village's wells; however it was built in the early 1990's, and since the most recent Well No. 2006-1 has levels of Nitrates below the drinking water standard, the IX unit of the plant is no longer used. The plant currently feeds caustic soda and fluoride, and provides disinfection for the water system. Due to the age of the plant, the study recommended the Village pursue another better quality supply well, in order for the IX plant to be formally decommissioned, and replaced with a chemical feed building. Further, the capacity of the existing tower is less than the system's average day demand. Therefore, that demand must be met through the IX plant's high service pumps; thus the recommendation for a new water tower. Lastly, there are numerous sections of the water distribution system which are undersized and in need of replacement.	By replacement of the systems' existing high nitrate well, the replacement well will ensure a low nitrate water supply on a continuous basis for the population of Adams.	The infrastructure investment in a replacement water well and tower is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Aurora, City of	New Well and Transmission Main Improvements	In March 2016, the City's Engineer completed a design report that evaluated the siting of a new well with transmission main. Monitoring of Aurora's detected Nitrates in a well above the drinking water standard of 10 mg/L. A second well has showed similar testing results, while the remaining three wells are all older than the average life of PWS supply well in the State, all of which supports Aurora constructing a new well for a sustainable water supply.	In October 2013, monitoring of Aurora's most recently drilled Well No. 2005-1 detected Nitrates at 10.2 mg/L, and subsequent quarterly monitoring showed results ranging between 9 mg/L and the drinking water standard of 10 mg/L. A second well has showed similar testing results.	N/A
Clarkson, City of	Water Tower Repainting	This project will repaint the City's water tower. This project may include the installation of a mixing system.	N/A	N/A
Fort Calhoun, City of	Interconnection with Washington County Rural Water No. 2 and New Public Works Building	In June 2014, a Water System Evaluation was completed by the City's Engineer. The report's primary noted concern is the water tank on the south side of town, which is no longer used, and thus the Fort Calhoun system is completely reliant on the Washington County Rural Water No. 1 water supply for maintaining water pressure. Without a suitable backup supply, or a water tower to sustain pressure, should maintenance ever be needed in the rural water system, the City could experience a complete water loss. As such, following extensive modeling it has been recommended that Fort Calhoun establish a second water source, by interconnecting to the Washington County Rural Water No. 2 system, through an interconnection on the north side of the	N/A	For the public works building project phase, the DWSRF will provide proportional funding for the area designated for use to support the operation of the water system.

		City. This will ensure that the residents are provided with a supply of safe drinking water on a continuous basis. In addition, the evaluation also recommended several distribution system improvements. Lastly, a new public works building will be built to suit through a developer that owns a property on the north side of the City.		
Gretna, City of	Water Main crossing Interstate 80 Interchange	This project will extend Gretna's distribution system along Highway 31, across Interstate 80, primarily to provide water service to the Flying J Travel Plaza water system. The supply well servicing the Flying J water system has deteriorated.	There are numerous monitoring wells for characterization of volatile organic contaminants in the area, and thus siting of a new supply well may not be possible because of setback considerations.	N/A
Kearney, City of	Upgrade to Radio-Read Water Meters	This project is the installation of a fixed base radio read water meter reading system.	N/A	This funding is categorically eligible under the Green Project Reserve.
Kenesaw, Village of	New Water Service Meters	This project is the installation of water meters on all service connections, which are not presently metered.	N/A	This funding is categorically eligible under the Green Project Reserve.
Papio-Missouri River NRD	Lakeland Estates Interconnection	The Washington County Rural Water No. 2 public water system, owned by the Papio-Missouri River Natural Resources District (NRD), will construct a water main to interconnect the Lakeland Estates Water Company, a private community water system. The engineering assessment concluded that just over one mile of 8" water main, along with a master meter and pressure reducing valve vault, was needed for the project. Lakeland's wells are high in iron, thus poor in quality.	The aesthetic considerations of a water source with high iron may lead residents to stop using the water from a system, even though the water is actually safe to drink. The RWDs supply is of a much higher quality, originating from the City of Blair's water treatment plant.	The infrastructure investment in a replacing the Lakeland Estates water supply wells with a new supply source is in line with the stated goals of the U.S. Environmental Protection Agency's Drinking Water Infrastructure Sustainability Policy.
Riverdale, Village of	Backup Well and Replacement Meters	In November 2015, the Village's Engineer completed a Preliminary Engineering Report that evaluated Riverdale's water system needs. The system consists of a single municipal well, an elevated 100,000 gallon water storage tower, and a distribution system. The Village's primary Well No. 92-1 has a capacity of 450 gallons per minute. However, that well is over 23 years in age and the engineering report concluded that the Village needs to establish a backup supply for the system. Further, old antiquated water meters are in need of replacement, and will be through an upgrade to radio-read technology.	N/A	The meter replacements are categorically eligible for funding under the Green Project Reserve.
Springfield, City of	Replacement Well, Transmission Main and Distribution System Improvements	In September 2014, the City's Engineer completed a Design Report that evaluated the siting of a replacement well with transmission main, as well as distribution system improvements. The public water system consists of two municipal wells, a 500,000 gallon water storage tank and a distribution system. A third system well is inactive, decommissioned following monitoring that showed Nitrates up to 15 mg/L, which supports the recommendation in the report that Springfield construct a new well. Test hole data from the proposed well site showed a Nitrate level of 2.3 mg/L, well below the drinking water standard. In addition, a water main loop will be constructed to tie-off two dead-end lines to the south of the proposed well project along Highway 50, which will ensure that the new well has redundant	As noted, the City previously made the proactive decision to decommission a well with nitrates above the drinking water standard. This project will replace that lost water source.	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.

		capability to supply the City's system.		
Trenton, Village of	Water Main Replacements	The project is for the replacement of water mains within the distribution system. The engineering report recommended that areas along Main and 1st Streets, where cast iron and cement asbestos water mains have shown a history of breaks, be replaced due to age and condition, also including the replacement of failing valves.	N/A	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.

SFY 2017 FUNDING LIST PLANNED					SFY 2016/2017 FUNDED PROGRAM				
PROJECT RANK	**PRIORITY POINTS**	**PUBLIC WATER SYSTEM**	**ESTIMATED COST**	**ESTIMATED FORGIVENESS**	**TOTAL ASSISTANCE**	**ACTUAL FORGIVENESS**	**NET LOAN AMOUNT**	**AGREEMENT DATE/QUARTER**	**COMMENTS**
1	FNSI	FAIRBURY, CITY OF	$5,920,000	$ 1,184,000	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Funding List
2	FNSI	LAUREL, CITY OF	$831,750	$ 291,113	$ -	$ -	$ -	N/A	Project need was eliminated
3	FNSI	AURORA, CITY OF	$1,000,000	$ 192,800	$ 800,000	$ 160,000	$ 640,000	SFY2017-Q2	
4	FNSI	SPRINGFIELD, CITY OF	$1,875,000	$ 375,000	$ 1,112,000	$ 222,400	$ 889,600	SFY2017-Q2	
5	FNSI	RIVERDALE, VILLAGE OF	$635,000	$ 126,302	$ 250,000	$ 47,250	$ 202,750	SFY2017-Q1	
6	CatEx	KEARNEY, CITY OF	$1,338,000	$ -	$ 1,500,000	$ -	$ 1,500,000	SFY2017-Q2	
7	135	MILFORD, CITY OF	$1,500,000	$ 300,000	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Funding List
8	135	HASTINGS, CITY OF	$3,325,000	$ -	$ -	$ -	$ -	N/A	Project privately funded
9	70	WEST KNOX RWD - SFY 2014	$2,426,433	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Planning List
10	60	FORT CALHOUN, CITY OF	$733,700	$ -	$ 643,800	$ -	$ 643,800	SFY2017-Q2	
11	60	METROPOLITAN UTILITIES DISTRICT	$6,552,655	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Funding List
12	30	GILTNER, VILLAGE OF	$250,000	$ -	$ -	$ -	$ -	N/A	Project privately funded
13	30	LINCOLN, CITY OF	$14,977,829	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Funding List
14	15	ATKINSON, CITY OF	$230,000	$ -	$ -	$ -	$ -	N/A	Project privately funded
15	15	ORD, CITY OF	$850,000	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Funding List
16	15	PLATTSMOUTH, CITY OF	$740,000	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to the SFY 2018 Planning List
17	15	WINSIDE, VILLAGE OF	$320,000	$ -	$ -	$ -	$ -	N/A	Project privately funded
18	0	GRETNA, CITY OF	$500,000	$ -	$ 504,125	$ -	$ 504,125	SFY2017-Q1	
SFY 2016 PLANNING LIST - BYPASS SYSTEMS					**SFY 2017 FUNDED PROGRAM**				
NR	100	ADAMS, VILLAGE OF	$ 385,000	N/A	$ 3,832,316	$ 766,463	$ 3,065,853	SFY2017-Q2	Funded per SFY2016 Bypass Criteria
NR	90	WASHINGTON RURAL WATER NO. 2	$ 129,164	N/A	$ 350,000	$ -	$ 350,000	SFY2017-Q2	Funded per SFY2016 Bypass Criteria
NR	60	CLARKSON, CITY OF	$ 600,000	N/A	$ 150,000	$ -		SFY2017-Q2	Funded per SFY2016 Bypass Criteria
NR	15	TRENTON, VILLAGE OF	$ 460,000	N/A	$ 500,000	$ -	$ 500,000	SFY2017-Q2	Funded per SFY2016 Bypass Criteria
					$ 9,642,241	$ 1,196,113	$ 8,296,128		

SFY 2016 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2017 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	KENESAW, VILLAGE OF	$ 644,000	$ 92,672	$ 835,000	$ 120,157	$ 714,843	SFY2017-Q1	
				$ 835,000	$ 120,157	$ 714,843		