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 2013

October 2013

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EXECUTIVE SUMMARY

Biennial reports are a requirement of the Environmental Protection Agency (EPA) for the Drinking Water State Revolving Loan Program (DWSRF). Nebraska has provided annual reports to EPA in lieu of the biennial report requirement. The program is also required to make an annual report to the Governor and Legislature. This annual report is for the State Fiscal Year (SFY) 2013 (July 1, 2012 through June 30, 2013). This report is a combined effort of the Nebraska Department of Environmental Quality and the Nebraska Department of Health and Human Services-Division of Public Health (NDHHS-DPH).

The Nebraska Drinking Water State Revolving Loan Fund Annual Report for SFY 2013 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 $186.2 million plus forgiveness of $24.8 million to 185 Public Water System (PWS) projects beginning with the program's inception through June 30, 2013. The Federal Fiscal Year (FFY) 2012 EPA capitalization grant was received on August 24, 2012. That capitalization grant was cash matched through the Administration Cash Fund and Special Bond Reserve cash freed up through a bond redemption. The FFY 2013 EPA capitalization grant is scheduled to be awarded in July 2013. The match for the FFY 2013 capitalization grant will be provided through a short-term revenue bond planned for issuance on August 2, 2013.

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, 2013, the EPA had awarded $140 million in capitalization grants to the State, plus $19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this $140 million required the State to contribute approximately $28 million in matching funds. The State provided appropriations to contribute $2.33 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds of $5,530,000 in June 2000, $1,815,000 in March 2001, $2,000,000 in December 2002, $1,700,000 in June 2003, $1,890,000 in September 2004, $1,920,000 in August 2005, $1,915,000 in June 2006, $1,920,000 in September 2007, $1,965,000 in October 2008, and $3,110,000 in November 2010. The 2009 Capitalization grant was matched with $1,629,000 of Administrative Cash Funds. On July 1, 2011, the Nebraska Department of Environmental Quality (Agency) retired the 2001, 2002, 2003, 2005 and 2006 bond issues. After the retirement of outstanding debt on these bonds, $872,310 remained from the associated reserve funds of the debt. This was used, along with $1,011,290 of Administrative Cash Funds to match the 2011 Capitalization grant for a total of $1,883,600 ($9,418,000 x 20%). On January 1, 2013, the Agency retired the 2004 and 2007 bond issues. After the retirement of these bonds, $364,390 remained of reserve funds. These reserve funds, along with $1,430,610 of Administrative Cash Funds were used to match the 2012 Capitalization grant for a total of $1,795,000 ($8,975,000 x 20%). Of the $8,975,000 awarded, $358,500 was withheld by EPA as an in-kind contribution for funds to pay for a federally contracted computer system (LGTS), which would track loans and program requirements. The system is still in a development stage.

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

A. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2013. This analysis has been prepared by management of the Agency, and is intended to be read in conjunction with the Program's financial statements and related footnotes that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 1) Balance Sheet, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

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

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

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

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Assets

For the fiscal year ended June 30, 2013, net assets of the Program increased by 5.1%. Revenues for the Program decreased by 1.6%, while expenses decreased by 20.9%.

NET ASSETS

	2013	2012	% Change
Current Assets	$58,927,235	$57,279,155	2.9%
Noncurrent Assets	86,019,982	80,697,424	6.6%
Total Assets	144,947,217	137,976,579	5.1%
Current Liabilities	1,078,616	1,486,185	(27.4%)
Noncurrent Liabilities	5,581,170	8,676,638	(35.7%)
Total Liabilities	6,659,786	10,162,823	(34.5%)
Net Assets:			
Restricted	1,019,143	1,693,008	(39.8%)
Unrestricted	137,268,288	126,120,748	8.8%
Total Net Assets	$144,947,217	$137,976,579	5.1%

CHANGE IN NET ASSETS

	2013	2012	% Change
Loan Fees Administration	927,572	$984,120	(5.7%)
Interest	3,757,905	3,775,439	(0.5%)
Fines, Forfeits, and Penalties	0	2,131	(100.0%)
Total Operating Revenues	4,685,477	4,761,690	(1.6%)
Administration	2,208,640	2,442,052	(9.6%)
ARRA Loan Forgiveness	95,604	101,981	(6.3%)
Non ARRA Loan Forgiveness	1,485,780	2,244,726	(33.8%)
Total Operating Expenses	3,790,024	4,788,759	(20.9%)
Operating Income (Loss)	895,453	(27,069)	100.0%
Non-operating Revenues (Expenses)			
Capital Federal Grants	9,455,473	8,320,272	13.6%
Capital Contributions ARRA Grants	442,461	278,050	59.1%
Interest Expenses	(319,711)	(407,026)	21.5%
Net Non- operating Revenues (Expenses)	**9,578,223**	**8,191,296**	**16.9%**
Change in Net Assets	10,473,675	8,164,227	28.3%
Beginning Net Assets July 1, 2012	127,813,756	119,649,529	6.8%
Total Net Assets, Beginning of Year	127,813,756	119,649,529	6.8%
Ending Net Assets, June 30, 2013	$138,287,431	$127,813,756	8.2%

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

Federal funds will vary each year depended on the size of each draw, the timing of each draw, the number of communities applying for loans, and the number of loans successfully processed. Changes are inherent in the Drinking Water program and are expected when draws are based on community requests.

ECONOMIC OUTLOOK

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

DEBT ADMINISTRATION

Long-Term Debt

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

B. BALANCE SHEET – UNAUDITED

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

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents:	
Cash in State Treasury (Note 2)	$41,050,227
Amounts Held by Trustee (Note 2)	9,965,770
Interest Receivable	69,516
Loans Receivable (Note 3)	7,841,722
TOTAL CURRENT ASSETS	58,927,235
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	86,019,982
TOTAL NON-CURRENT ASSETS	86,019,982
TOTAL ASSETS	$144,947,217
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable & Accrued Liabilities	$194,830
Compensated Absences (Note 5)	1,217
Accrued Bond Interest Payable	132,569
Bonds Payable (Note 4)	750,000
TOTAL CURRENT LIABILITIES	1,078,616
NON-CURRENT LIABILITIES	
Compensated Absences (Note 5)	16,170
Bonds Payable (Note 4)	5,565,000
TOTAL NON-CURRENT LIABILITIES	5,581,170
TOTAL LIABILITIES	6,659,786
NET ASSETS	
Restricted for Bond Payments	1,019,143
Unrestricted	137,268,288
TOTAL NET ASSETS	138,287,431
TOTAL LIABILITIES AND NET ASSETS	$144,947,217

C. STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - UNAUDITED
For the Year Ended JUNE 30, 2013

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	$927,572
Interest on Loans	2,325,298
Interest on Fund Balance – Trustee	512,936
Interest on Fund Balance – State Operating Investment Pool (Note 8)	919,671
Fines, Forfeits, and Penalties	-
TOTAL OPERATING REVENUES	$4,685,477
OPERATING EXPENSES:	
Administration From Fees (Note 9)	484,162
4% Administrative Costs from Grant	-
15% Source Water Assessment Program (Note 9)	542,134
2% Technical Assistance to Small Systems (Note 9)	221,077
10% Public Water Supply System (Note 9)	961,268
30% Loan Forgiveness (Note 9)	1,485,780
50% Loan Forgiveness ARRA (Note 9)	95,604
TOTAL OPERATING EXPENSES	$3,790,024
OPERATING INCOME (LOSS)	895,453
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions – Federal Grants	9,455,473
Capital Contributions – ARRA Federal Grants	442,461
Interest Expense – State Match Bonds (Note 13)	(319,711)
NET NONOPERATING REVENUE (EXPENSE)	9,578,223
CHANGE IN NET ASSETS	10,473,675
TOTAL NET ASSETS, BEGINNING OF YEAR	127,813,756
TOTAL NET ASSETS, END OF YEAR	$138,287,431

D. STATEMENT OF CASH FLOWS - UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS - UNAUDITED
For the Year Ended JUNE 30, 2013

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	$18,956,092
Interest on Investments	1,424,431
Payments to Borrowers	(12,933,987)
Payments to Borrowers ARRA	(346,857)
Payments for Administration	(485,028)
15% Source Water Assessment Program	(560,364)
2% Technical Assistance to Small Systems	(267,044)
10% Public Water Supply System	(1,015,364)
Loan Forgiveness	(1,485,780)
Loan Forgiveness ARRA	(95,604)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$3,190,495
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	9,455,473
ARRA Funds Received From the Environmental Protection Agency	442,461
Bond Principal Payments	(3,315,000)
Bond Interest Payments	(388,589)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	6,194,345
Increase in Cash and Cash Equivalents	

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,631,157
CASH AND CASH EQUIVALENTS, END OF YEAR	$51,015,998

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	895,453
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	2,422,379
(Increase)/Decrease in Interest Receivable	(8,177)
(Increase)/Decrease in Loan Interest Receivable	-
(Increase)/Decrease in Admin Fees Receivable	-
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(118,657)
Increase/(Decrease) in Compensated Absences	(503)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$3,190,495

E. NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - UNAUDITED

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

For the Fiscal Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

B. Reporting Entity

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

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

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

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

- Drinking Water Administration Fund – Cash Fund 28630

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

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

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

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

D. Measurement Focus, Basis of Accounting

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

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

In reporting the financial activity of its enterprise fund, the Program's management applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months, however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2013, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

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

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

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Drinking Water Program is funded, on average, 83.33% from Federal capitalization grants and 16.67% from State matching funds, except ARRA funds, which did not require State matching funds. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced, and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, and accrued interest during the project period. The interest rates on loans range from 2.0% to 4.3% and the terms are between 5 to 20 years. Disadvantaged communities may have up to 30 years to repay. The current and non-current loans receivable amounts were determined using the amount of principal payment due to the Program at June 30, 2013, and classified based on known and anticipated collections during fiscal year 2014.

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

G. Restricted Net Assets

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

H. Use of Estimates

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

I. Compensated Absences

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

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

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

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

2. <u>Cash in State Treasury and Amounts Held by Trustee</u>

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 endied June 30, 2013. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Drinking Water State Revolving Fund Program were designated for investment during fiscal year 2013. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee. The Nebraska Investment Finance Authority (NIFA) (the "Issuer") issues revenue bonds, the proceeds which are used by the Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants (See Not 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Bond Indenture. At June 30, 2013, the amount held by the Trustee of $9,965,770 was considered cash and cash equivalents and was stated at fair value, except for the amounts invested in Guaranteed Investment Contracts (GICs), where no readily ascertainable fair value was available. For this investment, the Program manager received an estimate of fair value from the Trustee. The amount held by the Trustee consisted of the following:

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

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

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

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

by Standard & Poor’s for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor’s and by Moody’s;

(f) Any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under laws of any state, or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bond, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;

(g) Investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a state banking association which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United States branch or agency of a foreign bank, which foreign bank consents to in personal jurisdiction and which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds; or

(h) Obligations of an insurance company which has a long-term debt rating by Standard & Poor’s and Moody’s no lower than the rating on the Outstanding Bonds.

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

- Credit Risk – Credit Risk is a risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization.

- Custodial Credit Risk of Investments – Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.

- Concentration of Credit Risk – when investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 75% of its total investments in the GIC fund.

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

3. Loans Receivable

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

City	Outstanding Balance
McCook	$7,459,026
Gering	6,293,935

Lincoln	5,821,427
North Platte	5,666,339
Metropolitan Utilities District	5,504,723
Sidney	4,644,655
Blair	4,368,394
Auburn	4,188,627
Alliance	3,662,301
Beaver Lake Association	2,282,664
TOTAL	**$ 49,892,091**

4. Bonds Payable

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the State's Drinking Water Program. NIFA issues the bonds and the proceeds are held by the Trustee until they are needed by the Program for loan purposes. The Series 2000A, 2008A and 2010A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A, 2008A and 2010A Bonds are revenue bonds. The Series 2000A, 2008A and 2010A Bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged for the payment of the principal of, premium, if any, or the interest on the Series 2000A, 2008A and 2010A Bonds. The current bonds payable amount was determined using the amount of bond principal to be retired in fiscal year 2014. Bonds payable for the fiscal year ended June 30, 2013, is as follows:

	Beginning Balance	Additions	Retirement	Ended Balance	Current Portion
Bonds Payable	$9,630,000	$ 0	$3,315,000	$6,315,000	$750,000

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

Series	Original Issue	Retirements	2013 Balance	Interest Rate	Final Maturity Date
2000A	$5,530,000	$3,640,000	$1,890,000	4.8-5.7%	July 1, 2015
2008A	1,965,000	455,000	1,510,000	2.75-5.0%	Jan 1, 2023
2010A	3,110,000	195,000	2,915,000	.9-3.3%	July 1, 2025

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

Year Ended June 30	Principal	Interest	Total
2014	750,000	252,194	1,002,194
2015	780,000	220,288	1,000,288
2016	1,350,000	170,135	1,520,135
2017-2021	1,830,000	536,404	2,366,404
2021-2026	1,605,000	155,350	1,760,350
TOTAL	$6,315,000	$1,334,371	$7,649,371

Federal arbitrage regulations are applicable to these bonds.

5. Noncurrent Liabilities

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

	Beginning Balance	Net Decreases	Ended Balance	Amounts Due Within One Year
Compensated Absences	$17,890	$503	$17,387	$1,217

6. Net Assets

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the EPA capitalization grants awarded, drawn, and the remaining balance as of June 30, 2013. The year column relates directly to the grant amount column and represents the fiscal year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2013, and may have been drawn over multiple years.

Year	Grant Amount	Amount Drawn	Balance
1997	$12,824,000	$12,824,000	-
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 – ARRA	19,500,000	19,500,000	-
2009	8,146,000	8,100,557	45,443

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

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

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

Contributed Capital July 1, 2012	$	138,555,440
Contributed During the Year:		
Funds From EPA		9,455,473
Funds From ARRA		442,461
Contributed Capital June 30, 2013	$	148,453,374

Also included in the Contributed Capital is a total of all general funds received by the Program from the Legislature of the State of Nebraska. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed $1,162,318 and $1,166,518 in the fiscal years ended June 30, 1998, and 1999, respectively. For the 2009 capitalization grant, $1,629,000 of Administrative Cash Funds was used to provide the match during the fiscal year ended June 30, 2011. The State also used $1,011,290 and $1,430,610 of Administrative Cash Funds, and $872,310 and $364,390 in cash previously held as Special Reserve to past bond issues that have now been redeemed, during the fiscal years ended June 30, 2012 and 2013, respectively.

7. **Loan Fees Administration**

The reported amount comes from a fee charged to loan recipients each year based on the amount of the loan outstanding. The fee is 1% per annum and was collected semi-annually.

8. **Interest on Fund Balance - State Operating Investment Pool**

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

9. **Operating Expenses**

The Operating Expenses of the Drinking Water State Revolving Fund Program are classified for financial reporting purposes, into seven categories. There are four set-aside activities established under §1452 of the Safe Drinking Water Act. The four set-aside activities are:

- 4% Administrative Costs from Grant
- 15% Source Water Assessment Program
- 2% Technical Assistance to Small Systems
- 10% Public Water Supply System

The Nebraska Department of Health and Human Services is provided funding under the following set-asides: Administration, Public Water Supply System, Small Systems Technical Assistance, and Source Water Assessment Program. A Memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services so that it can carry out oversight and related activities of the Program.

All are required to be federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are 30% Loan Forgiveness, and Interest Expense-State Match Bonds.

Following is an explanation of these categories:

4% Administrative Costs from Grant

A state may use up to 4 percent of the grant funds allotted to it for the reasonable costs of administering the program and providing technical assistance. These costs may include such activities as issuing debt; start up costs; audit costs; financial management; legal consulting fees; development of IUP (Intended Use Plan) and priority ranking system; development of affordability criteria; and costs of support services provided by other state agencies. If the state does not obligate the entire 4 percent for administrative costs in one year, it can bank the excess authority and use it for administrative costs in later years.

15% Source Water Assessment Program

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

- Assistance to a public water system to acquire land or a conservation easement for source water protection purposes;
- Assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- To support the establishment and implementation of wellhead protection programs; and
- To provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A state may use up to 2 percent of 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 percent for these activities against a given grant award, it can bank the excess authority and use it for the same activities in later years. A state may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A state may use up to 10 percent of the grant funds awarded to:

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

30% Loan Forgiveness

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

10. State Employees Retirement Plan (Plan)

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

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

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

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

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

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

For the fiscal year ended June 30, 2013, employees contributed $10,597.10 and the Agency contributed $16,531.48. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement system. This report contains full pension-related disclosures.

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

11. Contingencies and Commitments.

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

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

B. Life insurance for eligible employees.

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

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverage's are available from DAS – Risk Management Division.

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

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

II. PROGRAM INFORMATION SECTION

A. Fund Activities

1. Loan and Investment Status

The fund has a loan portfolio containing $183,755,069 in total loan allocations, of which $67,700,980 was repaid; $93,861,704 is outstanding, leaving $22,192,385 still to be disbursed. Details on the Fund portfolio of 185 loans are in Attachment 1. The blended interest rate on the SFY 2013 outstanding loan balance is 2.505%. The result was an overall 15.2 basis point decrease from SFY 2012. The blended rate is likely to decrease again over the next year.

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

This past State Fiscal Year (SFY), the DWSRF entered into ten binding commitments and six loan amendments to existing funded communities in order to provide financial assistance to PWS projects totaling $10,381,166. Of that amount, disadvantaged communities received $2,333,733 in forgiveness funding. Further, the Federal Fiscal Year (FFY) 2011 and 2012 capitalization grants required that a minimum of 30% and 20% of those grants be reserved for additional subsidization (e.g., principal forgiveness), respectively, and that 20% be reserved for the Green Project Reserve (GPR) (e.g., water meters) from the 2011 grant. Over 90% of the FFY 2011 grant requirements have been met, with a planned GPR loan for the City of Hartington, for a project scheduled to start in their 2014/2015 budget year, to close out the grant requirements. While only a minimal amount of forgiveness has been awarded to meet the FFY 2012 additional subsidization requirement to date, numerous major loan closings are scheduled, so there are no problems anticipated with meeting that required grant condition.

Attachment 2 provides information showing the loan agreements entered into during SFY 2013 by quarter and shows the cumulative binding commitment amount since the program initiation. The requirement is to allocate 100% of the capitalization grant less set-asides plus required state match within one year of receiving the grant payment. The cumulative requirement is $159,300,137. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of $218,973,000 or 137.46% of the required amount.

From the FFY 2012 capitalization grant $1,638,360 was allocated to the 2% ($179,500), 4% (358,500), 10% ($897,500) and 15% ($400,000) Set-Asides. Further detail is provided below regarding the use of those set-aside allocations.

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

The program is now utilizing the Administration cash fund for most of the salaries and associated expenses of personnel administering the DWSRF program and is not presently exercising this set-aside option for staffing. However, funds were reserved this past fiscal year for implementation of the Loan and Grant Tracking Software (LGTS), a comprehensive software application that will be designed specifically for Nebraska's DWSRF to track and manage all aspects of program loans, capital contributions, and bond issuance and repayment. It is anticipated that the LGTS will be online during SFY 2014.

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

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

During the SFY, following ARRA being passed into law, the cash fund paid for the following activities that were conducted for the on-going ARRA program by Nebraska's DWSRF.

- Completed ARRA required reporting to the EPA on quarterly basis for Section 1512 reporting to recovery.gov.
- Provided guidance to ARRA sub-recipients, on an as needed or requested basis.

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

- Developed program documents and procedures
- Solicited applications
- 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
- Project and program audits
- Financial modeling
- Attended state and national meetings

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

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

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 25 on-site visits each month.

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

A. Engineering & Field Services and Monitoring & Compliance Staff

This set-aside was used to fund salaries, benefits, and all other related operating expenses (e.g., travel, etc.) for staff employed in Nebraska's Public Water Supply Supervision (PWSS) Program in accordance with the work plan approved under the EPAs PWSS Program grant. The staff positions include Drinking Water Program Specialists in the Monitoring and Compliance program, Water Supply

Specialists in the Field Services Program, and Engineers in the Engineering Services Program. In addition, this set-aside funds the Department's Water Security Coordinator position.

B. Capacity Development

From July 1, 2012 through June 30, 2013 NeRWA under the technical & managerial contract, made system visits had an average of twenty-six (26) contacts per month for a total of three-hundred six (306) contacts involving two-hundred thirty-nine (239) PWSs..

NeRWA reported giving direct Financial and Managerial assistance to eighty (80) contacts involving sixty-three (63) PWSs.

In SFY 2013 Field Services representatives performed 369 Routine Sanitary Surveys (RSS) and 42 Follow-up surveys. There were 179 Community, 131 Non-Transient and 59 Transient Non-Community Routine Sanitary Surveys. The numbers of deficiencies found are as follows:

Community Systems:
Significant: 417 Minor: 204
A total of 621 deficiencies. Average of 3.4 significant or minor deficiencies per system.

Non-Transient Non-Community Systems(NTNC):
Significant: 114 Minor: 26
A total of 140 deficiencies. Average of 2.3 significant or minor deficiency per system.

Transient Non-Community Systems:
Significant: 138 Minor: 70
A total of 208 deficiencies. Average of 1.5 significant or minor deficiencies per system.

Of the 969 significant and minor deficiencies found in SFY 2013 there are only 62 left to still be corrected. The vast majority of these are record keeping related deficiencies. This means that for SFY 2013 Nebraska had 94% deficiency correction rate. There are 48 PWSs that had a RSS in SFY 2013 that still have at least one outstanding deficiency. Eighty-seven percent of the PWSs have fully complied with all deficiencies that were found. With increased attention being paid to sanitary survey deficiencies we fully expect the deficiency correction number to be close to 98% in SFY 2014. Because of the Safe Drinking Water Information System (SDWIS) database the State can effectively compare survey and deficiency data. The normal rotation for sanitary surveys is every 3 years for Community and Non-Transient Non-Community systems and every 5 years for Transient Non-Community systems. In 2013 NDHHS-DPH will be able to take an easy look back at Community and NTNC systems, compare survey data, and see if the numbers of deficiencies found will decrease as planned and whether or not NDHHS-DPH will find the same deficiencies. If the numbers of deficiencies decrease we can be sure that our Capacity Development program is working.

C. Operator Certification

During SFY 2013 NDHHS-DPH held nine water operator training courses applicable to various grade levels. Water operator licenses were issued to 115 individuals in SFY 2013. The number issued per license grade is as follows:

Grade 1 - 2 licenses
Grade 2 - 4 licenses
Grade 3 - 17 licenses
Grade 4 - 92 licenses

All PWSs are required to obtain the services of an operator holding a valid license equal to or greater than the classification of the water system. Grade 4 is Nebraska's lowest level of license for a person to be able to operate a Community or Non-transient Non-Community PWS. Grade 1 is the highest.

Grade 5 water operators are not included in this report. A Grade 5 is issued to an individual who operates a Transient Non-Community PWS and is not required to be renewed. All other water operator licenses require continuing education for renewal, and require those licenses be renewed every 2 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). NDHHS-DPH used $750,000 from the FFY 2011 Capitalization Grant to administer Nebraska's Public Water Supply Program during SFY 2012 into SFY 2013. NDHHS-DPH used a combination of the following to meet the match requirement for the 10 percent set-aside:

- A credit from the general funds provided for the match of FFY 1993 PWS program grant (Total of $233,688).
- A credit from the additional general funds (i.e. overmatch) provided by the State for the PWS program grant in FFY93 (Total of $272,339).
- Current year general funds allocated to the PWS program, not used for match to the PWS program grant (Total of $200,124 in general funds provided during FFY 2012 not used for match); and
- Cash contributions in the form of income from fees received to perform analyses at the State laboratory for PWSs (Fee amount received during SFY 2013 was $1,277,025), for review of plans ($179,343 received in SFY 2013), and for operator licenses ($48,754 received in SFY 2013).

The total of State funding available for one-to-one match to the $897,500 was $2,211,273.

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

A. Land Acquisition For Source Water Protection

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

B. Source Water Delineation and Assessment

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

Source Water and Wellhead Protection staff were funded with 319 Non-Point Source funds and 15% DWSRF Set-Aside money. NDEQ staff continues to work with public water suppliers to develop protection actions for their drinking water supplies. Staff have updated Wellhead Protection Area maps (or adopted the acceptable work of others) and Watershed Delineation Area maps for Nebraska public water supplies. As of June 30, 2013, 97 PWSs have completed state-approved wellhead protection plans.

Beginning with FY 2003, approximately $200,000 of the 15% DWSRF set-aside had been used annually for Source Water Protection granted projects. This amount was reduced to $100,000 beginning in FFY 2007. The allocation from the FFY 2012 Capitalization Grant was distributed to four different entities for project implementation to enhance source water quality, quantity, security, and education. These recipients included the cites of Crawford, Juniata and Shelton and the Nemaha County Rural Water District #2. The total amount available in SFY 2013 was $100,000. To date, Source Water Protection funds have been distributed to 56 individual entities to complete 73 separate Source Water Protection projects throughout the state..

C. Planning Grants

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

Planning grants may be provided to PWS's serving 10,000 or fewer people. This includes any city, town, village, sanitary improvement district, natural resources district, or other public body created by or pursuant to state law having jurisdiction over a community PWS. Privately owned PWS's are not eligible for assistance.

Grants are provided for up to 90% of costs for eligible preliminary engineering report services, but cannot exceed $15,000 per system. Grants for preliminary engineering report services for Regional PWS's remained at $25,000. One grant awards was made in SFY 2013 totaling $15,000, to a high priority ranked community issued an Administrative Order for Arsenic compliance. Since its inception in SFY 2002, the DWSRF has awarded planning grants to 101 communities for a total of $1,220,320.

D. Security Grants

Letters were sent to all community PWS's with populations less than 10,000 notifying them of the grant program in SFY 2013. The maximum grant award was $10,000, with a 10% match required on all awards. The majority of that funding was awarded last fiscal year, which resulted in the following types of projects being installed:

- Security Alarms 2
- Fencing 11
- Lighting 4
- Locks 1
- Security Cameras 6
- Steel Doors 2
- Generators 13
- Chlorinators 3
- Windows 1
- Transfer Switch 7
- Buildings 3
- Map 1
- PTO 1

Number of Grants Awarded 48

E. Capacity Development

NDHHS-DPH continues to use this set-aside to fund one FTE staff. That position administers the Public Water System Capacity Development Program for NDHHS-DPH. The position includes oversight and on-going implementation of the State's Capacity Development strategy, writing and administering contracts which utilize funding from the DWSRF 2% set-aside monies, and writing and submitting all necessary reports and other documents that are required as part of this program. The program coordinator held 20 presentations involving asset management, capacity development and drought mitigation for PWSs, and an asset management presentation was made at one conference.

7. Match Discussion

The ratio for match purposes is theoretically 1/6 state, 5/6 federal, for an 83.33% ACH draw as a percentage of total disbursement. However, the use of set-asides makes the actual percentage fluctuate. Since set-asides are not matched directly the draws for set-asides must be matched by a later disbursement on a loan project. As of June 30, 2013 the ACH draw was $123,513,369 and the match disbursement was $27,900,621 for an ACH draw as a percentage of grant plus match disbursements ratio of 81.57%. This ratio indicates that the state has overmatched on this requirement.

Upon receiving clarification from EPA in February of 2013, 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 and PBR data entry
- Assure that borrowers have dedicated source of repayment
- Use funds in timely and expeditious manner
- Ensure recipient compliance with applicable federal cross-cutting authorities
- Implement capacity development strategy (See II.A.5.B)
- Implement an operator certification program (See II.A.5.C)
- Conduct environmental reviews including:

Environmental Reviews were conducted on 9 PWS projects during SFY 2013. It was determined that no Environmental Impact Statements (EIS) were necessary; instead Environmental Assessments (EA) were prepared and Finding of No Significant Impact Statements (FNSI) were issued for 6 projects:

Brunswick, Denton, Elgin, Lindsay, North Loup, and Scribner. Categorical Exclusion(s) (CE) were issued for 3 projects: Bayard, Lodgepole, and Kenesaw.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2013 Intended Use Plan. The short-term goals support the implementation of the program. The DWSRF has made significant progress on most of its short-term goals. The DWSRF program continues to work with the systems identified by providing both technical and financial project support. The goals are listed and discussed as follows:

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

This goal was accomplished across the board for all projects funded in SFY 2013. With changes in market rates, program rates for all loans were closed at 2% during the fiscal year.

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

There were 10 loans and 6 loan amendments closed during SFY 2013. Six of the loans were for high priority status projects. One other was for installing replacement water meters, that while not a high priority is a direct requirement of the Green Project Reserve (GPR) of the FFY 2011 grant conditions. Two of the loans and two amendments addressed enforcement actions issued by NDHHS-DPH: Clarks – Administrative Order (A.O.) Uranium Maximum Contaminant Level (MCL) violations, Creighton – A.O. for Nitrate MCL violations, Denton – A.O. for Radium MCL violations, and North Loup – A.O. for Arsenic MCL violations. Lastly, the Elgin loan may help that City avoid an A.O. for ongoing Arsenic violations.

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

All systems that closed loans in SFY 2013 with the DWSRF met this goal. Descriptions of the individual projects are provided in Attachment 4.

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

See responses to number 3 above for Denton, Elgin and North Loup, and for the amendments with Clarks and Creighton. A.O.'s have set deadlines agreed to between the City and the NDHHS-DPH.

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

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

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

See response to number 3 above for Clarks, Creighton, Denton, Elgin and North Loup.

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

All systems that closed loans in SFY 2013 with the DWSRF help the program meet this requirement.

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

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

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY 2013 IntUse Plan. The goals are listed and discussed as follows:

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

In establishing the financial structure of the program we have tried to provide the lowest reasonable interest rate loans for projects that address human health problems. Following the addition of the DWSRF-ARRA grant, interest rates have ranged between 2% and 2.5% after reviews of market rates. Reflective of recent economic concerns rates were dropped to 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. Upon receiving clarification from EPA, match disbursements have been completed with 100% of the state match drawn first, prior to any request for associated capitalization grant loan funds.

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

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

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

In SFY 2013, six of the 10 loan agreements were made to either address or proactively mitigate future public health issues. In addition, through the Water Wastewater Advisory Committee (WWAC) monthly meetings, eligible projects are discussed by the participating State and Federal agencies and evaluated for the health-related issues being addressed, project alternatives, cost-effectiveness, and long-term solution for the water system. See Section C below for additional details.

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

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

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

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

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

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

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

See response to number 1 above.

8. Insuring the fund's purchasing power in perpetuity requires balancing the need for fund growth at the rate of inflation experienced in the construction industry, versus the desire to provide loans at low interest rates. The fund and loan interest rates and cost of borrowing the state match will be examined annually to evaluate the fund net growth and determine the reasonableness of loan interest rates. Management practices will be reviewed and modified annually to assist in achieving the growth goals.

See response to number 1 above. Please note that this was originally shown as a Short-Term goal in the IUP, but has been upgraded to a Long-Term goal.

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

From its inception, Nebraska's DWSRF program has provided low-interest loans and some forgiveness each year of the program. With the continued mandatory subsidization requirement of not less than 20% up to 30% with the FFY 2012 capitalization grant, the ability for the program to provide affordable financing continued to increase this past fiscal year. In addition, other agencies' participation in the WWAC include the Nebraska Department of Economic Development, which administers the Community Development Block Grant program, and the USDA-Rural Development, which administers the Business and Community Programs, providing loans and grants to non-profit organizations in rural areas. These programs have provided state and/or federal financial assistance to make drinking water infrastructure projects affordable in the State.

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

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

C. Funded Program

The Annual Report reflects the results and changes from the SFY 2013 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 21, 2012. Provided after Section D is a brief synopsis of the SFY 2013 Funding List communities that closed loans during the fiscal year. More detailed project information for the loans closed in SFY 2013 is provided in Attachment 4.

NDHHS-DPH works with all members of the WWAC to identify projects that are potentially ready to be funded and moving forward during the SFY. This approach was helpful for those systems that indicated that they were anticipating moving forward with a project during the SFY. Below is a summary of the known status for each of the high priority projects for the systems that made contact with the NDHHS-DPH DWSRF Coordinator during the past fiscal year, starting first with the SFY 2013 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Bayard, City of – Is considering constructing a Reverse Osmosis treatment plant to address elevated Nitrate levels. The project, if constructed, will be funded through the USDA-RD with the water meter phase funded through the DWSRF in SFY 2014.

Clatonia, Village of – Is planning to construct a new well to address Gross Alpha concerns, which will be funded by the USDA-RD program.

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

Dwight, Village of – Intends to be part of a regional planning grant to potentially develop a project to address elevated Arsenic levels detected through monitoring.

Haigler, Village of – Is planning to install Point of Use treatment for Arsenic removal, which will be funded by the DWSRF and CDBG in SFY 2014.

Lindsay, Village of – Is planning to construct a blended well to address a Nitrate A.O., which will be funded by the DWSRF in SFY 2014.

Mead, Village of – Intends to apply for planning grant assistance to develop their project to address elevated Arsenic levels detected through monitoring.

McCook, City of – Is planning to construct a dedicated complete retention lagoon for water treatment plant residuals, which will be funded by the DWSRF in SFY 2014.

Mullen, Village of – May apply for DWSRF assistance to address their system pressure problems in SFY 2014.

Ogallala, City of – Is planning to construct a replacement well to address elevated Nitrate levels detected in former well, which will be funded by the DWSRF in SFY 2014.

Scribner, City of – Is planning to construct a replacement water treatment iron/manganese removal plant, which will be funded by the DWSRF in SFY 2014.

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

Planning List Projects

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

Beatrice, City of – Has completed the repainting of their water towers, which were privately funded.

Beatrice West Project – The initial rural water system phase has been constructed, which was funded by USDA-RD. A potential second phase is been evaluated.

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

Benkelman, City of – The City is re-evaluating the treatment solution developed to address their Uranium A.O.

Bertrand, Village of – Has constructed its new water tower, which was privately funded.

Brainard, Village of – Intends to apply for a regional planning grant to address a recently issued Selenium A.O.

Campbell, Village of – Completed a PER for their new well project.

Cedar-Knox, RWD – Intends to apply for DWSRF assistance in SFY 2014 to extend their water system to an existing area of private homes, in part to decrease the retention time in their distribution system in order to limit the formation of disinfection by-products.

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

Country Acres Subdivision – Has constructed its new water well, which was privately funded.
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Dakota City, City of – Through private financing, proceeding with upgrading its water treatment plant.

Dodge, Village of – Is working with the local Natural Resources District to develop a new area for long-term water source development to potentially address Nitrate concerns.

Firth, Village of – Through private financing, is proceeding with repainting its water tower.

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

Grafton, Village of – Is planning to construct a replacement well to address elevated Nitrate levels, which will be funded by the USDA-RD program.

Grand Island, City of – Through private financing, constructed a Uranium removal plant.

Harrison, Village of – Has started a test hole program to address elevated Nitrate levels, the project will be submitted for a review through the WWAC.

Hartington, City of – Is planning to replace its water meters, which will be funded through the DWSRF-GPR in SFY 2014.

Hebron, City of – Through private financing, constructed a new well to address elevated Nitrate levels.

Kearney, City of – Is planning to install UV treatment at its river wellfield, which will be funded through the DWSRF in SFY 2014.

Kenesaw, Village of – Is planning to install water meters, which may be funded through the DWSRF-GPR in SFY 2014.

Lincoln, City of – Is planning on constructing a horizontal collector well to address a treatment plant supply ozone unit efficiency issue, which will likely be funded through the DWSRF in SFY 2014.

Lodgepole, Village of – Intends to apply for a planning grant to address a Arsenic MCL violations.

Merna, Village of – Is planning to construct a new water tower to increase pressures in their distribution system, which will be funded by the USDA-RD program.

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Metropolitan Utilities District – Through private financing, proceeding with a major upgrade to its Missouri river water treatment plant.

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

Phillips, Village of – Is developing a new well project to address elevated Nitrate and Uranium levels, the project will be submitted for a review through the WWAC.

Rosalie, Village of – The Village has developed a project to interconnect with a local RWD, which will be funded by USDA-RD.

Springfield, City of – Is developing a new well project to address elevated Nitrate levels, the project may be funded by the DWSRF in SFY 2014.

St. Edward, City of – Chose to not proceed with their well project

Steele City, Village of – Has completed a failed test hole, may need to install Point of Use treatment for compliance with a Nitrate A.O.

Tecumseh, City of – Through private financing, is constructing a new well.

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

Wakefield, City of – Has developed plans for a new water tower, the project will likely be funded by the DWSRF in SFY 2014.

Wilcox, Village of – Through private financing, are replacing water mains in their distribution system.

Creighton and Denton have completed their projects through DWSRF funding, and have been brought back into compliance with their enforcement actions previously issued by NDHHS-DPH.

The communities of Bladen, Carroll, Glenvil, and Merriman submitted preliminary engineering reports to NDHHS-DPH, for a review for potential funding assistance through the WWAC.

D. Program Changes Under Consideration

Changes under consideration include increased ranking points for systems that have approved Wellhead Protection Areas and limiting forgiveness assistance to just those communities that are addressing public health needs as a part of their projects. The latter is due to the anticipated decrease in capitalization grant funding projected for FFY 2014 and thereafter.

SFY 2013 FUNDING LIST PLANNED					SFY 2012/2013 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	SHELTON, VILLAGE OF	$ 870,435	$ 174,087	$ 1,255,500	$ 251,100	$ 1,004,400	SFY2012-Q4	
2	FNSI	LEIGH, VILLAGE OF	$ 700,000	$ 140,000	$ 590,000	$ 150,000	$ 440,000	SFY2013-Q3	
3	FNSI	RAVENNA, CITY OF	$ 3,160,000	$ 632,000	$ 2,890,600	$ 578,120	$ 2,312,480	SFY2013-Q1	
4	FNSI	ST HELENA VILLAGE OF	$ 285,000	$ 57,000	$ 353,580	$ 58,836	$ 294,744	SFY2013-Q1	
5	FNSI	MCCOOK, CITY OF	$ 1,221,500	$ 244,300	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
6	185	NORTH LOUP, VILLAGE OF	$ 2,020,000	$ 707,000	$ 1,849,700	$ 647,395	$ 1,202,305	SFY2013-Q4	
7	170	LINDSAY, VILLAGE OF	$ 510,000	$ 155,346	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
8	165	DAVEY, VILLAGE OF	$ 1,056,030	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
9	165	DENTON, VILLAGE OF - SFY 2012	$ 835,000	$ 200,150	$ 814,946	$ 195,343	$ 619,603	SFY2013-Q1	
10	165	HAIGLER, VILLAGE OF	$ 530,000	$ 76,108	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
11	160	BAYARD, CITY OF - SFY 2012	$ 200,000	$ 70,000	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2013 Funding List.
12	160	CLATONIA, VILLAGE OF	$ 1,900,000	$ 380,000	$ -	$ -	$ -	N/A	Project funded by USDA-RD.
13	160	GREEN ACRES MOBILE HOME COURT - SFY 2012	$ 51,000	$ -	$ -	$ -	$ -	N/A	Project privatedly funded.
14	160	SCRIBNER, CITY OF	$ 3,415,000	$ 683,000	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
15	155	WOOD LAKE, VILLAGE OF	$ 85,000	$ 17,000	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
16	150	MEAD, VILLAGE OF	$ 3,541,800	$ -	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Planning List.
17	145	BEE, VILLAGE OF	$ 309,139	$ 61,828	$ 309,139	$ 61,828	$ 247,311	SFY2013-Q4	
18	135	COLERIDGE, VILLAGE OF	$ 425,000	$ 85,000	$ -	$ -	$ -	N/A	Passed on Funding.
19	135	OGALLALA, CITY OF	$ 2,195,195	$ 439,039	$ -	$ -	$ -	TBD	Project delayed, shifted to SFY2014 Funding List.
20	135	SUPERIOR, CITY OF - SFY 2012	$ 550,000	$ 110,000	$ -	$ -	$ -	N/A	Project delayed, shifted to SFY2014 Planning List.
21	130	BRUNSWICK, VILLAGE OF	$ 261,000	$ 52,200	$ 177,000	$ 35,400	$ 141,600	SFY2013-Q2	
		SFY 2013 PLANNING LIST - BYPASS SYSTEMS					SFY 2013 FUNDED PROGRAM		
NR	140	ELGIN, CITY OF	$ 2,030,000	TBD	$ 1,457,587	$ 291,517	$ 1,166,070	SFY2013-Q4	Funded per SFY2013 Bypass Criteria.
NR	80	DAYKIN, VILLAGE OF	$ 500,000	TBD	$ 650,000	$ 130,000	$ 520,000	SFY2013-Q3	Funded per SFY2012 Bypass Criteria.
					$ 10,348,052	$ 2,399,539	$ 7,948,513		

SFY 2013 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2012/2013 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	SHELTON, VILLAGE OF	$ 929,565	$ 185,913	$ 929,567	$ 185,913	$ 743,654	SFY2012-Q4	Total included in the Loan above.
2	LOUP CITY, CITY OF	$ 206,400	$ 41,280	$ 221,400	$ 44,280	$ 177,120	SFY2013-Q1	
3	AURORA, CITY OF	$ 325,000	$ 65,000	$ 325,000	$ 65,000	$ 260,000	SFY2012-Q4	
4	HOLDREGE, CITY OF	$ 294,190	$ 58,838	$ 294,910	$ 58,982	$ 235,928	SFY2012-Q4	
				$ 1,770,877	$ 354,175	$ 1,416,702		

ATTACHMENT 1
LOAN AND INVESTMENT STATUS

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311223	Adams		P	209,831.00	209,831.00	0.00	2.75	0.00		
D311151	Ainsworth		F	919,790.00	335,775.96	584,014.04	2.50	1,460,035.10		
D311493	Ainsworth		F	350,000.00	116,514.84	233,485.16	3.00	700,455.48		
D311001	Albion		P	492,950.00	492,950.00	0.00	3.00	0.00		
D311152	Albion			282,000.00	9,800.00	228,554.00	2.00	457,108.00		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	15,759.69	135,118.31	2.00	270,236.62		
D311496	Alliance	ARRA	F	3,513,951.00	371,867.14	3,142,083.86	2.00	6,284,167.72		
D311511	Alliance		F	595,224.00	75,007.35	520,216.65	2.00	1,040,433.30		
D311393	Ansley		F	595,260.00	114,897.73	480,362.27	3.00	1,441,086.81		
D311225	Arapahoe		P	450,000.00	450,000.00	0.00	2.50	0.00		
D311003	Arlington		F	1,592,435.00	950,979.27	641,455.73	3.47	2,225,851.38		
D311219	Auburn		P	630,784.00	630,784.00	0.00	3.53	0.00		
D311499	Auburn	ARRA		4,504,500.00	206,000.00	4,188,627.00	2.30	9,633,842.10		
D311004	Aurora		P	300,000.00	300,000.00	0.00	2.80	0.00		
D311495	Aurora		P	226,733.00	226,733.00	0.00	3.00	0.00		
D311563	Aurora	GP11		260,000.00	0.00	0.00	2.00	0.00		
D311226	Bancroft		P	591,000.00	591,000.00	0.00	2.50	0.00		
D311227	Barneston		F	32,794.00	27,263.06	5,530.94	2.50	13,827.35		
D311091	Bassett		F	138,342.00	57,099.58	81,242.42	2.50	203,106.05		
D311005	Bayard	ARRA	F	112,065.00	16,493.59	95,571.41	2.00	191,142.82		
D311147	Beatrice		P	826,223.00	826,223.00	0.00	3.18	0.00		
D311006	Beaver Lake Association	UNPL	F	3,276,647.00	993,983.30	2,282,663.70	4.00	9,130,654.80		
D311389	Bee	FFATA		247,311.00	0.00	0.00	2.00	0.00		
D311516	Bellwood	ARRA	F	142,924.00	11,474.45	131,449.55	2.00	262,899.10		
D311073	Benedict		F	455,000.00	20,080.31	434,919.69	3.42	1,487,425.34		
D311142	Bennet		P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet	ARRA	F	612,697.00	63,929.66	548,767.34	2.00	1,097,534.68		
D311228	Big Springs		P	636,000.00	636,000.00	0.00	2.50	0.00		
D311228	Big Springs Amd#1		P	215,000.00	215,000.00	0.00	3.00	0.00		
D311007	Blair		F	6,815,700.00	4,916,742.07	1,898,957.93	3.03	5,753,842.53		
D311530	Blair	GP10		2,841,400.00	0.00	2,469,437.00	2.25	5,556,233.25		
D311131	Bloomfield		P	203,361.00	203,361.00	0.00	3.00	0.00		
D311491	Bloomfield		P	174,822.00	174,822.00	0.00	2.75	0.00		
D311093	Bloomington		P	151,697.00	151,697.00	0.00	2.50	0.00		
D311094	Blue Hill		F	459,656.00	230,774.85	228,881.15	3.00	686,643.45		
D311132	Boyd Co. RWD No. 2		P	822,000.00	822,000.00	0.00	3.30	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311288	Bradshaw	ARRA	F	175,669.00	45,939.62	129,729.38	2.00	259,458.76		
D311081	Brady		F	365,547.00	99,360.28	266,186.72	3.30	878,416.18		
D311404	Bridgeport	ARRA	F	775,068.00	80,873.77	694,194.23	2.00	1,388,388.46		
D311529	Bridgeport		F	833,728.00	32,998.57	800,729.43	2.14	1,713,560.98		
D311405	Bristow		F	80,000.00	36,080.06	43,919.94	2.75	120,779.84		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	175,686.91	1,646,535.09	2.62	4,313,921.94		
D311009	Bruning		F	483,571.00	344,759.18	138,811.82	3.03	420,599.81		
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	206,788.28	12,711.72	3.00	38,135.16		
D311561	Brunswick			141,600.00	0.00	72,398.00	2.00	144,796.00		
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo			536,560.00	0.00	287,446.00	2.25	646,753.50		
D311456	Carroll	GP10		184,000.00	2,500.00	121,052.00	2.00	242,104.00		
D311159	Cedar-Knox (Lewis & Clark)		F	249,000.00	112,268.88	136,731.12	3.00	410,193.36		
D311524	Cedar-Knox (Lewis & Clark)		F	67,112.00	6,126.30	60,985.70	2.00	121,971.40		
D311012	Central City		F	387,572.00	120,421.20	267,150.80	2.75	734,664.70		
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	74,392.75	230,607.25	2.50	576,518.13		
D311509	Clarks		F	516,836.00	30,807.33	486,028.67	2.00	972,057.34		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	GP10		1,670,358.00	0.00	525,943.00	2.55	1,341,154.65		
D311234	Cozad		P	1,142,471.00	1,142,471.00	0.00	2.75	0.00		
D311149	Crawford		P	668,700.00	668,700.00	0.00	3.00	0.00		
D311557	Creighton	FFATA		788,000.00	0.00	642,789.00	2.29	1,471,986.81		
D311017	Culbertson		F	236,862.00	118,827.36	118,034.64	3.00	354,103.92		
D311018	Cuming Co. RWD No. 1		F	643,981.00	290,062.43	353,918.57	3.08	1,090,069.20		
D311457	Cuming Co. RWD No. 1		F	323,435.00	22,641.58	300,793.42	2.75	827,181.91		
D311506	Dalton	ARRA	F	197,024.00	20,558.29	176,465.71	2.00	352,931.42		
D311167	Davenport		P	440,000.00	440,000.00	0.00	3.40	0.00		
D311169	David City		F	626,435.00	261,934.45	364,500.55	2.51	914,896.38		
D311569	Daykin	FFATA		520,000.00	0.00	0.00	2.00	0.00		
D311555	Denton			619,603.00	0.00	503,001.00	2.00	1,006,002.00		
D311102	DeWitt		P	650,000.00	650,000.00	0.00	2.50	0.00		
D311238	Dodge		F	56,156.00	23,394.19	32,761.81	2.51	82,232.14		
D311240	Dorchester	GP10		1,451,914.00	19,000.00	972,473.00	2.00	1,944,946.00		
D311021	Duncan		P	465,000.00	465,000.00	0.00	4.30	0.00		
D311243	Elba		P	341,250.00	341,250.00	0.00	2.50	0.00		
D311243	Elba Amd#1		P	360,750.00	360,750.00	0.00	3.00	0.00		
D311571	Elgin	FFATA		1,166,070.00	0.00	0.00	2.00	0.00		
D311022	Emerson		F	380,010.00	210,568.87	169,441.13	3.03	513,406.62		
D311302	Fairbury		F	694,436.00	216,272.70	478,163.30	2.50	1,195,408.25		
D311176	Fairmont		F	183,582.00	34,600.58	148,981.42	3.54	527,394.23		
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311536	Firth		F	326,301.00	34,343.44	291,957.56	2.00	583,915.12		
D311512	Friend	ARRA	F	208,508.00	26,942.26	181,565.74	2.00	363,131.48		
D311535	Fullerton		F	366,000.00	38,189.94	327,810.06	2.00	655,620.12		
D311026	Gering	BASE	F	445,110.00	28,790.79	416,319.21	3.24	1,348,874.24		
D311026	Gering AMD#1	ARRA	F	6,252,963.00	375,347.03	5,877,615.97	2.30	13,518,516.73		
D311245	Giltner		P	795,462.00	795,462.00	0.00	3.26	0.00		
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00		
D311214	Grafton		F	207,998.00	94,100.60	113,897.40	3.00	341,692.20		
D311104	Grant		F	273,674.00	198,425.83	75,248.17	3.00	225,744.51		
D311467	Gresham		F	88,119.00	52,039.07	36,079.93	2.00	72,159.86		
D311028	Gurley		F	173,280.00	52,582.18	120,697.82	3.74	451,409.85		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311547	Hay Springs	FFATA		305,000.00	0.00	216,341.00	2.50	540,852.50		
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00		
D311521	Hickman		F	2,196,778.00	44,938.18	2,151,839.82	2.00	4,303,679.64		
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00		
D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00		
D311311	Holdrege	GP11		235,928.00	0.00	0.00	2.00	0.00		
D311544	Holstein	GP10	F	216,097.00	9,139.41	206,957.59	2.00	413,915.18		
D311033	Hubbard		F	154,778.00	39,467.69	115,310.31	3.79	437,026.07		
D311109	Humboldt			2,056,400.00	0.00	1,217,946.00	2.30	2,801,275.80		
D311545	Humphrey			1,830,594.00	0.00	1,589,611.00	2.25	3,576,624.75		
D311067	Jackson		F	109,339.00	63,494.35	45,844.65	3.00	137,533.95		
D311034	Kearney		F	2,139,420.00	1,012,300.98	1,127,119.02	3.24	3,651,865.62		
D311282	Kearney		F	1,237,634.00	484,182.37	753,451.63	3.48	2,622,011.67		
D311398	Kearney		P	8,116,884.00	8,116,884.00	0.00	3.44	0.00		
D311540	Kearney		F	212,927.00	22,661.14	190,265.86	2.00	380,531.72		
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00		
D311184	Kimball		F	750,000.00	220,622.39	529,377.61	2.52	1,334,031.58		
D311504	Laurel	ARRA		357,266.00	35,000.00	308,436.00	2.00	616,872.00		
D311564	Leigh	FFATA		440,000.00	0.00	0.00	2.00	0.00		
D311548	Lincoln	U/FFATA		15,000,000.00	0.00	5,821,427.00	2.25	13,098,210.75		
D311188	Louisville		F	843,275.00	184,107.62	659,167.38	3.50	2,307,085.83		
D311562	Loup City	GP10		177,120.00	0.00	148,411.00	2.00	296,822.00		
D311317	Lyons		F	695,000.00	157,150.44	537,849.56	2.50	1,344,623.90		
D311220	Madison Co. SID #3		F	491,843.00	274,870.91	216,972.09	3.39	735,535.39		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		F	9,922,000.00	2,462,974.25	7,459,025.75	2.80	20,885,272.10		
D311130	Metropolitan Utilities Distr.		F	755,593.00	565,344.02	190,248.98	3.00	570,746.94		
D311498	Metropolitan Utilities Distr.	U/ARRA	F	5,797,062.00	482,587.75	5,314,474.25	2.00	10,628,948.50		
D311256	Niobrara		F	175,000.00	66,110.49	108,889.51	3.00	326,668.53		
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	16,298.65	139,984.35	2.00	279,968.70		
D311565	North Loup	FFATA		1,202,305.00	0.00	0.00	2.00	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311042	North Platte		F	3,077,844.00	1,444,288.14	1,633,555.86	3.36	5,488,747.69		
D311322	North Platte		F	6,070,005.00	2,037,221.47	4,032,783.53	3.72	15,001,954.73		
D311078	Oakland		P	400,000.00	400,000.00	0.00	3.00	0.00		
D311503	Oakland		F	104,883.00	6,361.64	98,521.36	2.00	197,042.72		
D311138	Odell		F	103,293.00	46,714.24	56,578.76	3.03	171,433.64		
D311500	Oscelola	ARRA	F	270,772.00	28,253.45	242,518.55	2.00	485,037.10		
D311533	Oscelola			1,027,640.00	18,000.00	920,713.00	2.25	2,071,604.25		
D311198	Palisade		P	808,000.00	808,000.00	0.00	3.00	0.00		
D311080	Papio-Mo River NRD		P	338,800.00	338,800.00	0.00	4.00	0.00		
D311049	Paxton		P	1,131,000.00	1,131,000.00	0.00	3.00	0.00		
D311326	Pender		F	1,028,735.00	317,471.65	711,263.35	2.50	1,778,158.38		
D311505	Phillips	ARRA	F	166,643.00	17,388.21	149,254.79	2.00	298,509.58		
D311543	Pickrell			182,702.00	0.00	113,475.00	2.00	226,950.00		
D311532	Platte Center		F	505,371.00	20,151.44	485,219.56	2.25	1,091,744.01		
D311051	Plattsmouth		F	1,491,112.00	853,772.96	637,339.04	3.00	1,912,017.12		
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	56,448.24	816,508.76	2.00	1,633,017.52		
D311513	Pleasant Dale	ARRA	F	106,126.00	13,337.24	92,788.76	2.00	185,577.52		
D311525	Ravenna	GP11		2,312,480.00	0.00	30,484.00	2.00	60,968.00		
D311438	Republican City		F	1,057,060.00	966,554.14	90,505.86	3.00	271,517.58		
D311542	Rogers		F	77,280.00	4,712.62	72,567.38	2.00	145,134.76		
D311559	St. Helena	FFATA		294,744.00	0.00	181,142.00	2.00	362,284.00		
D311218	St. Paul	ARRA	F	606,000.00	60,624.56	545,375.44	2.38	1,297,993.55		
D311053	Schuyler	ARRA	F	1,560,451.00	129,858.05	1,430,592.95	2.00	2,861,185.90		
D311334	Scotia		P	467,415.00	467,415.00	0.00	2.57	0.00		
D311501	Shelby	ARRA	F	177,707.00	14,755.56	162,951.44	2.00	325,902.88		
D311537	Shelby			1,045,680.00	0.00	957,926.00	2.00	1,915,852.00		
D311514	Shelton	GP11		1,036,000.00	0.00	893,997.00	2.00	1,787,994.00		
D311056	Sidney		P	1,156,000.00	1,156,000.00	0.00	3.00	0.00		
D311351	Sidney		F	7,975,000.00	3,330,345.42	4,644,654.58	2.52	11,704,529.54		
D311057	So. Sioux City		F	267,732.00	170,013.24	97,718.76	3.00	293,156.28		
D311268	So. Sioux City		F	1,331,150.00	707,192.74	623,957.26	3.00	1,871,871.78		
D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		F	100,000.00	22,478.08	77,521.92	2.83	219,387.03		
D311058	Stanton		F	344,991.00	298,188.27	46,802.73	3.00	140,408.19		
D311059	Stanton Co. SID #1		F	353,805.00	125,528.49	228,276.51	4.00	913,106.04		
D311146	Stapleton		F	95,953.00	55,698.63	40,254.37	3.01	121,165.65		
D311060	Stratton		P	167,492.00	167,492.00	0.00	3.00	0.00		
D311336	Stratton		P	1,001,000.00	1,001,000.00	0.00	2.75	0.00		
D311539	Stromsburg			1,497,724.00	0.00	1,424,834.00	2.00	2,849,668.00		
D311502	Sutherland	ARRA	F	1,180,291.00	98,835.87	1,081,455.13	2.02	2,184,539.36		
D311089	Tecumseh		F	478,982.00	265,177.80	213,804.20	3.00	641,412.60		
D311077	Tekamah		F	1,247,818.00	500,498.60	747,319.40	3.00	2,241,958.20		
D311550	Terrytown	GP10		1,288,000.00	0.00	0.00	2.00	0.00		
D311068	Utica		P	458,699.00	458,699.00	0.00	3.00	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311068	Utica		P	458,699.00	458,699.00	0.00	3.00	0.00		
D311126	Valentine		P	450,000.00	450,000.00	0.00	3.00	0.00		
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	ARRA	F	299,274.00	31,074.04	268,199.96	2.00	536,399.92		
D311071	Waterloo		F	297,522.00	205,779.87	91,742.13	3.36	308,253.56		
D311375	Wauneta			281,600.00	0.00	226,739.00	2.11	478,419.29		
D311276	Wausa		F	289,083.00	109,146.13	179,936.87	3.00	539,810.61		
D311527	Wausa		F	260,814.00	5,002.04	255,811.96	2.23	570,460.67		
D311519	Wayne	ARRA	F	762,414.00	63,502.78	698,911.22	2.00	1,397,822.44		
D311558	West Knox RWS-LNNRD	FFATA		886,054.00	0.00	124,666.00	2.50	311,665.00		
D311066	Wood River		P	424,100.00	424,100.00	0.00	3.68	0.00		
D311497	Wymore	ARRA	F	1,489,829.00	155,019.92	1,334,809.08	2.00	2,669,618.16		
D311520	York	U/ARRA	F	2,334,605.00	240,343.30	2,094,261.70	2.00	4,188,523.40		
	TOTAL			**183,755,069.00**	**67,700,980.04**	**93,861,703.96**		**235,104,528.84**	**2.505**	**2.505**

NOTE: 25 ARRA LOANS

PROJECT IDENTIFIER CODES:	
AMERICAN RECOVERY AND REINVESTMENT ACT	**ARRA**
FEDERAL FUNDING ACCOUNTABILITY & TRANSPARENCY ACT	**FFATA**
GREEN PROJECT 2010	**GP10**
GREEN PROJECT 2011	**GP11**
UNPLEGED	**UNPL**
UNPLEGED ARRA	**U/ARRA**
UNPLEGED FFATA	**U/FFATA**

STATUS CODES:	
ACTIVE	
FINAL	**F**
PAID OFF	**P**

ATTACHMENT 2
BINDING COMMITMENTS

COMMUNITY NAME	PROJECT #D31	SMALL SYSTEM (<10,000)	FISCAL YEAR 2012				FISCAL YEAR 2013			
			1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
BRIDGEPORT AMD #1	1529	X	982,291							
CORTLAND	1546	X	2,087,947							
LINCOLN	1548		15,000,000							
SUTHERLAND AMD #1	1502	X	153,331							
PLATTE CENTER AMD #1	1532	X	475,000							
CAIRO	1549	X	670,700							
LAUREL AMD #1	1504	X	-							
CREIGHTON	1557	X		562,000						
WEST KNOX RWS-LNNRD	1558	X			1,107,567					
HAY SPRINGS	1547	X			381,250					
TERRYTOWN	1550	X			1,610,000					
SHELTON	1514	X				1,295,000				
HOLDREGE	1311	X				294,910				
AURORA	1563	X				325,000				
ADMINISTRATION										
HOLSTEIN AMD #1	1544	X					13,521			
LOUP CITY	1562	X					221,400			
DENTON	1555	X					814,946			
CREIGHTON AMD #1	1557	X					423,000			
ST. HELENA	1559	X					353,580			
CLARKS AMD #1	1509	X					35,133			
RAVENNA	1525	X					2,890,600			
STROMSBURG AMD #1	1539	X					-			
WAUSA AMD #1	1527	X						20,000		
SHELBY AMD #1	1537	X						-		
BRUNSWICK	1561	X						177,000		
BLAIR AMD #1	1530	X							500,000	
LEIGH	1564	X							590,000	
DAYKIN	1569	X							650,000	
ELGIN	1571	X								1,457,587
NORTH LOUP	1565	X								1,849,700
BEE	1389	X								309,139
CARROLL AMD #1	1456	X								75,560
ADMINISTRATION										
(1) BINDING COMMITMENT TOTALS			**19,369,269**	**562,000**	**3,098,817**	**1,914,910**	**4,752,180**	**197,000**	**1,740,000**	**3,691,986**
(2) CUMUMLATIVE BINDNG COMMITMENTS			**203,016,107**	**203,578,107**	**206,676,924**	**208,591,834**	**213,344,014**	**213,541,014**	**215,281,014**	**218,973,000**
FY BINDING COMMITMENT TOTALS					**FY2012:**	**24,944,996**			**FY2013:**	**10,381,166**
(3) REQUIRED BINDING COMMITMENT*			**15,066,140**				**9,663,240**			
(4) CUMULATIVE REQUIRED AMOUNT			**149,636,897**	**149,636,897**	**149,636,897**	**149,636,897**	**159,300,137**	**159,300,137**	**159,300,137**	**159,300,137**
(5) BC AS % OF REQ'D BC AMOUNT			**135.67**	**136.05**	**138.12**	**139.40**	**133.93**	**134.05**	**135.14**	**137.46**

*100% OF CAPITALIZATION GRANT LESS SET-ASIDE PLUS MATCH, LAGGED BY 1 YEAR FROM PAYMENT

NOTE: THE REQUIRED BINDING COMMITMENT WAS INCREASED BY $3,654,323 TO ACCOUNT FOR A GRANT AMENDMENT ADDING BACK THE LAND ACQUISITION SET-ASIDE FOR FY97 THROUGH FY02, $800,410 for FY03, and $865,710 for FY06.

ATTACHMENT 3

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

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

JULY 1, 2011 THROUGH JUNE 30, 2012

Issued on April 8, 2013

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. Neb. Rev. Stat. §§ 71-5314 to 71-5327 created the Drinking Water State Revolving Fund Act. The Federal Safe Drinking Water Act and State statutes established the Drinking Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low interest loans to finance the entire cost of qualified projects. The Program provides a flexible financing source which can be used for a variety of projects. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities have 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2012, the EPA had awarded $131 million in capitalization grants to the State, plus $19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this $131 million required the State to contribute approximately $26 million in matching funds. The State provided appropriations to contribute $2.33 million of the funds to meet the State’s matching requirement. Additional matching funds were obtained through the issuance of revenue bonds of $5,530,000 in June 2000, $1,815,000 in March 2001, $2,000,000 in December 2002, $1,700,000 in June 2003, $1,890,000 in September 2004, $1,920,000 in August 2005, $1,915,000 in June 2006, $1,920,000 in September 2007, $1,965,000 in October 2008, and $3,110,000 in November 2010. The 2009 Capitalization grant was matched with $1,629,000 of Administrative Cash Funds. On July 1, 2011, the Agency retired the 2001, 2002, 2003, 2005 and 2006 bond issues. After the retirement of outstanding debt on these bonds, $872,310 remained from the associated reserve funds of the debt. This was used, along with $1,011,290 of Administrative Cash Funds to match the 2011 Capitalization grant for a total of $1,883,600 ($9,418,000 x 20%).

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.

EXIT CONFERENCE

An exit conference was held February 27, 2013, with the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program to discuss the results of our examination. Those in attendance for the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program were:

NAME	TITLE
Tom Lamberson	Deputy Director
Martie Guthrie	Budget Officer III
Mary Brady	Federal Aid Administrator II
Donna Garden	FAS/SRF Section Supervisor
Kris Young	Accountant III
Jim Novotny	Accountant III
John Danforth	Env. Assistance Coordinator
Mary Schroer	Program Specialist
Pat Rice	Assistant Director
Curtis Youngman	State Accounting
Chin Chew	Department of Health and Human Services
Jack Daniel	Department of Health and Human Services
Steve Rowell	Department of Health and Human Services
Marty Link	Associate Director

SUMMARY OF COMMENTS

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

1. ***Aid Testing:*** During State fiscal year 2012, the Agency paid $11,378,984 to 41 subrecipients, of which $8,741,674 was Federal funding. During loan and grant payment testing, it was noted the Agency had not established any formal financial, technical, and managerial capability requirements. As a result, for all five loans tested, we could not determine the subrecipient met the financial, technical, and managerial capability standards set by statute. It was also noted, for one grant payment, the grantee received excess funding because the Agency did not retain the required minimum retention amount, for one grant payment there was no documentation of the program administrator's review and approval, five projects did not have documentation that an on-site review had been performed, and the Agency did not send the CFDA title and number, the award name and number, and the amount of ARRA funds with each disbursement made to the subrecipient.

2. ***Contractual Expenditures:*** For one of three Federal contractual expenditures tested, the expenditure was for budgeted costs and not for actual services provided and for one contractual expenditure tested that reimbursed the Nebraska Department of Health and Human Services (DHHS) for their DWSRF administration costs had limited supporting documentation on file and the reimbursement form was not signed by DHHS' administration.

3. ***Cash Management:*** During testing we selected 21 loan payments to seven subrecipients who received a total of $1,358,028, of which $687,600 was Federal funding. For all 21 payments tested, we could not determine whether the subrecipient paid their contractors in a timely manner, as the Agency did not have supporting documentation on file showing when the subrecipient paid their contractors.

4. ***Federal Reporting:*** During testing of the two FFRs submitted during the State fiscal period, it was noted both were not complete and accurate as program income was not reported and there was no documentation the reports were prepared and reviewed by separate individuals.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Agency to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Aid Testing

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Activities Allowed or Unallowed/ Subrecipient Monitoring

Grant Number & Year: All open grants including #FS-99780510-0, FFY 2010; #FS-99780509-0, FFY 2009; #2F-99705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Neb. Rev. Stat. § 71-5324 (Reissue 2009) states, "All loans made under the Drinking Water State Revolving Fund Act shall be made only to owners of public water systems that: Meet the requirements of financial, technical, and managerial capability set by the department."

OMB Circular A-133 § 400(d)(3) requires that pass-through entities "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

2 CFR § 176.210(c) (January 1, 2011) states,

> *"Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program."*

2 CFR § 176.210(d) (January 1, 2011) states,

> *"Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office."*

A good internal control plan requires procedures that ensure expenditures are reviewed and approved prior to payment by a second individual to ensure the payments are made in accordance with loan agreements and adequate documentation is on file documenting all compliance requirements have been met.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Aid Testing (Continued)

Condition: During State fiscal year 2012, the Agency paid $11,378,984 to 41 subrecipients, of which $8,741,674 was Federal funding. We selected seven subrecipients and 21 loan/grant payments totaling $1,358,028, of which $687,600 was Federal funding, for testing. During testing it was noted:

- The Agency had not established any formal financial capability requirements. As a result, for five loans tested, we could not determine the political subdivision met the financial, technical, and managerial capability standards set by statue.
- For one grant payment, the grantee received excess funding because the Agency did not retain the required minimum retention amount.
- For one grant payment, there was no documentation of the program administrator's review and approval.
- Five projects did not have documentation an on-site review had been performed.
- The Agency did not communicate the CFDA title and number, the award name and number, and the amount of ARRA funds with each disbursement made to the subrecipient.

Questioned Costs: Unknown

Context: During testing it was noted:

- Per discussion with the Financial Assistance Section Supervisor, the financial capability analysis included as an attachment to the loan contract was viewed as a summary document of the subrecipient's position. The Agency had not established the requirements needed to be met, but the State Revolving Fund manual identified information that should have been considered when the financial capability analysis document was completed.
- The grant agreement required 10%, but not less than $2,000, be retained pending final approval of the project. After the grant payment, the Agency retained $562 less than $2,000.
- There was no documentation of the program administrator's approval on a $9,321 grantee payment.
- The Agency sent an annual letter to each subrecipient that included the Federal dollars paid, CFDA information, and the SEFA identification requirements for ARRA funds.

A similar finding was noted in the prior audit.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Aid Testing** (Continued)

Cause:

- The Agency had no formal requirements established to evaluate the financial, technical, and managerial capability of the subrecipient. Therefore, there was no documentation of the Agency's analysis of the attributes being performed.

- The minimum retention requirement in a grant agreement was overlooked.

- Source Water Protection grants were still in the early stages of procedure development, so no review by the program administrator had been implemented.

- The reason that no documentation of an onsite review could be found is unknown.

- The Agency provided the required information annually but not with each disbursement.

Effect: There is an increased potential for noncompliance with State statutes and Federal requirements.

Recommendation: We recommend the following:

- The Agency establish standards identifying the minimum requirements needed for a political subdivision to have the financial capability to repay a loan.

- The Agency compare their standards to each subrecipient's financial capability information and document how the standards were met.

- The Agency review their procedures and controls to ensure that all Source Water Protection payments are properly reviewed and approved and made in accordance with the grant agreement.

- The Agency ensure on-site reviews are performed and documented.

- At the time of each disbursement, the Agency notify the subrecipient of the CFDA title and number, the award name and number, and the amount of ARRA funds.

Management Response: As of 2/28/2013, the Agency has implemented the corrective actions below to address this Finding.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Aid Testing** (Concluded)

Corrective Action:

- NDEQ will follow Federal Environmental Protection Agency guidelines recommending Water System fees be no more than 2.5% of Median Household Income. Any municipality below this is eligible for SRF loans. Any municipality over the 2.5% of MHI rate will require re-assessment of scope of project and risk to the fund.

- In order to document this standard, the Financial Capabilities analysis will report the percent of MHI.

- Source Water Protection Payments will be signed by the reviewer and will also be approved by the appropriate Section Supervisor or Division Director.

- Source Water Protection Payments will be 90% of each invoice, eliminating overpayment and one additional site visit or other means of verification will be done and documented.

- Documentation mailed at the time of disbursement notifying the subrecipient of disbursement will include CFDA title and number, and award name and number. ARRA Grant is completed and closed. Forms have been modified as of 2/28/13.

Contact: Donna Garden, Supervisor Financial Assistance Section

Anticipated Completion Date: Completed

2. **Contractual Expenditures**

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Allowable Costs/Cost Principles

Grant Number & Year: All open grants including #FS-99780510-0, FFY 2010; #FS-99780509-0, FFY 2009; #2F-99705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: OMB Circular A-87 requires that costs charged to Federal programs be adequately documented and conform to the limitations set forth in A-87.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Contractual Expenditures (Continued)

Sound business practices and internal controls over Federal expenditures require all payments be made for actual costs of services performed. Sound internal controls also require expenditures be reviewed and approved to ensure supporting documentation is on file and all applicable Federal regulations have been met.

Condition:

- For one of three Federal contractual expenditures tested, the expenditure was for budgeted costs and not for actual services provided.

- For one Federal contractual expenditure tested, the Agency reimbursed the Nebraska Department of Health and Human Services (DHHS) for their DWSRF administration costs, but had limited support documentation on file and the reimbursement form was not signed by DHHS' administration.

Questioned Costs: $18,000 known

Context:

- A contractor was paid $18,000 based on a budget payment schedule. No support for the amount of work actually completed on the project was on file.

- The Agency reimbursed DHHS $1,843,502 based on DHHS' invoices and DHHS' general ledger detail reports from the State's accounting system. The general ledger reports included only the name and amount of vendors paid and the total amount of payroll costs charged to the program. The general ledger reports did not include the names of the DHHS employees charged to the program. The Agency did not perform any procedures to ensure items in the reimbursement adhered to OMB Circular A-87.

- The Agency had established procedures requiring DHHS' administration sign and approve the invoice.

Cause: The Agency believed their documentation was adequate since DHHS should have had controls in place to review all their expenditures to ensure the expenses were in compliance with OMB Circular A-87.

Effect: When expenditures are made based on budgeted rather than actual costs or without adequate supporting documentation, there is an increased risk Federal funds may be used for unallowable activities.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Contractual Expenditures (Concluded)

Recommendation: We recommend the Agency review their procedures to ensure all contractual expenditures are based on actual work completed and adequate supporting documentation is on file.

> **Management Response:** As DHHS follows NE Department of Administrative Services accounting policies in regards to expenditures, and documents a pre-audit function on those presented to NDEQ for payment, the Agency has placed a strong reliance on those internal controls.
>
> **Corrective Action Plan:** The Agency will coordinate with DHHS management staff in regards to completing a review of grant expenditure reimbursements. A random sample of DHHS billings to the DWSRF grant will be selected throughout the fiscal year. Items to be verified may include allowable activities, eligible staff performing those activities, and pass through grant payments.
>
> **Contact:** Martie Guthrie, Budget Officer III
>
> **Anticipated Completion Date:** June 30, 2013

3. Cash Management

Program: CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) and ARRA DWSRF – Cash Management

Grant Number & Year: All open grants including #FS-99780510-0, FFY 2010; #FS-99780509-0, FFY 2009; #2F-99705601-0, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: 40 CFR § 31.37(a)(4) says, States shall "Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

Per the DWSRF loan document Section 2.10, Other Conditions and Terms, *(i)* ***Contractor's Payments.*** The Borrower agrees to make prompt payment to its contractor(s) of sums due for construction and to retain only such amounts as may be justified by specific circumstances and provisions of the construction contract.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Cash Management (Concluded)

Condition: During testing we selected 21 loan payments to seven subrecipients who received a total of $1,358,028, of which $687,600 was Federal funding. For all 21 payments tested, we could not determine whether the subrecipient paid their contractors in a timely manner, as the Agency did not have supporting documentation on file showing when the subrecipient paid their contractors.

Questioned Costs: None

Context: The total payments made to subrecipients in State fiscal year 2012 were $11,378,984 to 41 subrecipients, of which $8,741,674 was Federal funding. Many of the subrecipients were small entities who probably did not have the cash flow to pay their contractors before receiving payments from the Agency.

Cause: The Agency had a requirement in the loan agreement that the recipient would pay contractors timely, but did not monitor whether this requirement was met.

Effect: The Agency may not be in compliance with Federal regulations and Federal cash payments to subrecipients may have been improperly used.

Recommendation: We recommend the Agency institute procedures to ensure subrecipients are making payments to their contractors in a timely manner.

> **Management Response:** Ensuring payments in a timely manner is dependent on the timing of the municipality's governing body approval process. With small communities this depends on a monthly board meeting. Documentation actions below were implemented by the Agency.
>
> **Corrective Action:** As of March 4, 2013 each disbursement request from loan recipients will include information on the previous disbursement. This information includes date(s) and Check or Transaction number(s). Final Payment will be verified separately.
>
> **Contact:** Donna Garden, Supervisor Financial Assistance Section
>
> **Anticipated Completion Date:** Completed

4. Federal Reporting

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

Grant Number & Year: #FS-99780506-0, FFY 2006; #2F-97705601-0, FFY 2009 (ARRA)

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Federal Reporting (Continued)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control requires policies and procedures to ensure all the information reported on Federal Financial Report (FFR) forms is complete and accurate. The FFR form requires Federal program income be reported.

Condition: During testing of the two FFRs submitted during the State fiscal year it was noted:

- Both reports were not complete and accurate, as program income was not reported.
- There was no documentation the reports were prepared and reviewed by separate individuals.

Questioned Costs: None

Context: During testing it was noted:

- Program income not reported was $56,532.
- For both reports submitted during the fiscal year, there was no documentation of separate preparer and approver.

The final FFR for the Drinking Water ARRA grant that was submitted after June 30, 2012, appeared to have reported program income and included documentation that the preparer and approver of the document were different.

A similar finding was noted in the prior audit.

Cause: The Agency was working with the EPA to determine how program income should be reported. The Agency reached an agreement with the EPA in February 2012.

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

Recommendation: We recommend the Agency implement procedures to review FFRs before they are submitted to ensure all data included is accurate and complete, including the reporting of program income. In addition, the Agency should continue to document the preparer and approver of all reports.

> **Management Response:** This issue was noted during the last fiscal year audit, and action was taken immediately after the previous audit exit conference.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Federal Reporting (Concluded)

Corrective Action Plan: Federal Financial Reports are compiled by the Accountant III position, and reviewed by the Budget Officer III position prior to submittal. Compilation and review are both documented through signatures, and indications made that supporting documentation has been compared to the final report.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITORS' REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the accompanying financial statements of the business type activities of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program, as of and for the year ended June 30, 2012, which collectively comprise the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program are intended to present the financial position and changes in financial position of only that portion of the business type activities of the State that is attributable to the transactions of the Nebraska Department of Environmental

Quality – Drinking Water State Revolving Fund Program. They do not purport to, and do not, present fairly the financial position of the business type activities of the State of Nebraska as of June 30, 2012, and its changes in financial position or cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, on our consideration of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, we have also issued our report dated March 27, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 15 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SIGNED ORIGINAL ON FILE

March 27, 2013

Don Dunlap, CPA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2012. This analysis has been prepared by management of the Agency and is intended to be read in conjunction with the Program's financial statements and related footnotes that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 1) Balance Sheet, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

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

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

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

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Assets

For the fiscal year ended June 30, 2012, net assets of the Program increased by 7%. Operating Revenues for the Program decreased 2% while expenses increased by 18%.

NET ASSETS

	2012	2011	% Change
Current Assets	$ 57,279,155	$ 45,946,245	25%
Noncurrent Assets	80,697,424	90,519,720	(11%)
Total Assets	137,976,579	136,465,965	1%
Current Liabilities	1,486,185	1,940,733	(23%)
Noncurrent Liabilities	8,676,638	14,875,703	(42%)
Total Liabilities	10,162,823	16,816,436	(40%)
Net Assets:			
Restricted	1,693,008	2,273,757	(26%)
Unrestricted	126,120,748	117,375,772	7%
Total Net Assets	$ 127,813,756	$ 119,649,529	7%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

CHANGES IN NET ASSETS

	2012	2011	% Change
Loan Fees Administration	$ 984,120	$ 913,202	8%
Loan Interest	3,775,439	3,928,206	(4)%
Fines, Forfeits, and Penalties	2,131	199	100%
Total Operating Revenues	4,761,690	4,841,607	(2)%
Administration	2,442,052	1,942,189	26%
ARRA Loan Forgiveness	101,981	1,495,884	(93%)
Non ARRA Loan Forgiveness	2,244,726	631,428	100%
Total Operating Expenses	4,788,759	4,069,501	18%
Operating Income	(27,069)	772,106	(100)%
Nonoperating Revenues (Expenses)			
Capital Federal Grants	8,320,272	4,387,064	90%
Capital Contributions ARRA Grants	278,050	3,275,783	(92%)
Interest Expenses	(407,026)	(660,152)	38%
Bond Expenses	-	(97,084)	100%
Net Nonoperating Revenues (Expenses)	8,191,296	6,905,611	19%
Change in Net Assets	8,164,227	7,677,717	6%
Beginning Net Assets July 1, 2011	119,649,529	113,960,966	5%
Prior Period Adjustment	-	(1,989,154)	(100%)
Total Net Assets, Beginning of Year	119,649,529	111,971,812	7%
Ending Net Assets June 30, 2012	$ 127,813,756	$ 119,649,529	7%

The most significant change from the fiscal year ended June 30, 2011, to the fiscal year ended June 30, 2012, were the Loan Fees Administration and Administration balances, Change in Net Assets and the amount received from Capital Contributions. Past funding received through the American Recovery and Reinvestment Act (ARRA) was disbursed through numerous community loans. As expected, those disbursements dropped off this past fiscal year as the ARRA program neared completion. However, the infusion of ARRA funding has continued to increase the collection of loan fees. Administrative expenses increased from last fiscal year, due to the fact the Program filled empty vacancies and were more fully staffed. Noncurrent Liabilities decreased significantly due to the redemption of five bond series during the fiscal year. This brought the Net Asset total up since there was less debt to pay.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Federal funds will vary each year depending on the size of each draw, the timing of each draw, the number of communities applying for loans, and the number of loans successfully processed. Changes are inherent in the Drinking Water Program and are expected when draws are based on community requests.

ECONOMIC OUTLOOK

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

DEBT ADMINISTRATION

Long-Term Debt

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

AMERICAN RECOVERY AND REINVESTMENT ACT

The Nebraska State Drinking Water Revolving Fund Program received $19.5 million in American Recovery and Reinvestment Act (ARRA) funding for upgrades to public water systems. ARRA provides new, one-time funding, which is combined with $26 million in existing funds from the Drinking Water State Revolving Fund. Funding is administered by the Department of Health and Human Services (DHHS) Division of Public Health to provide financial assistance to communities.

The average ARRA base blended loans are 25 percent loan forgiveness. The remaining 75 percent is issued to communities as low-interest loans at 2 percent. ARRA requires the State to use at least 50 percent of the funds awarded by this grant to provide additional subsidization in the form of loan forgiveness.

DHHS ranked the State's public water supply needs using the fund's established ranking system, with some modifications made to direct funds to projects that were further along in the planning stages. ARRA requires 20 percent of recovery funds go to water efficiency projects, such as water meter installation.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BALANCE SHEET

June 30, 2012

		Enterprise Fund
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents:		
Cash in State Treasury (Note 2)	$	30,927,774
Amounts Held by Trustee (Note 2)		10,703,383
Interest Receivable		61,339
Loans Receivable (Note 3)		15,586,659
TOTAL CURRENT ASSETS		57,279,155
NON-CURRENT ASSETS		
Loans Receivable (Note 3)		80,697,424
TOTAL NON-CURRENT ASSETS		80,697,424
TOTAL ASSETS	$	137,976,579
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable & Accrued Liabilities	$	313,487
Compensated Absences (Note 5)		1,252
Accrued Bond Interest Payable		201,446
Bonds Payable (Note 4)		970,000
TOTAL CURRENT LIABILITIES		1,486,185
NON-CURRENT LIABILITIES		
Compensated Absences (Note 5)		16,638
Bonds Payable (Note 4)		8,660,000
TOTAL NON-CURRENT LIABILITIES		8,676,638
TOTAL LIABILITIES		10,162,823
NET ASSETS		
Restricted for Bond Payments		1,693,008
Unrestricted		126,120,748
TOTAL NET ASSETS		127,813,756
TOTAL LIABILITIES AND NET ASSETS	$	137,976,579

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	$ 984,120
Interest on Loans	2,663,479
Interest on Fund Balance - Trustee	447,657
Interest on Fund Balance - State Operating Investment Pool (Note 8)	664,303
Fines, Forfeits, and Penalties	2,131
TOTAL OPERATING REVENUES	4,761,690
OPERATING EXPENSES:	
Administration From Fees (Note 9)	383,875
4% Administrative Costs from Grant	-
15% Source Water Assessment Program (Note 9)	505,039
2% Technical Assistance to Small Systems (Note 9)	229,468
10% Public Water Supply System (Note 9)	1,323,670
30% Loan Forgiveness (Note 9)	2,244,726
50% Loan Forgiveness ARRA (Note 9)	101,981
TOTAL OPERATING EXPENSES	4,788,759
OPERATING LOSS	(27,069)
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants	8,320,272
Capital Contributions - ARRA Federal Grants	278,050
Interest Expense - State Match Bonds (Note 13)	(407,026)
NET NONOPERATING REVENUE (EXPENSE)	8,191,296
CHANGE IN NET ASSETS	8,164,227
TOTAL NET ASSETS, BEGINNING OF YEAR	119,649,529
TOTAL NET ASSETS, END OF YEAR	$ 127,813,756

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, 2012

		Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers	$	14,074,648
Interest on Investments		1,101,587
Payments to Borrowers		(10,397,110)
Payments to Borrowers ARRA		(188,272)
Payments for Administration		(399,797)
15% Source Water Assessment Program		(464,122)
2% Technical Assistance to Small Systems		(219,800)
10% Public Water Supply System		(1,276,424)
Loan Forgiveness		(2,244,726)
Loan Forgiveness ARRA		(101,981)
NET CASH PROVIDED BY OPERATING ACTIVITIES		(115,997)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Funds Received From the Environmental Protection Agency		8,320,272
ARRA Funds Received From the Environmental Protection Agency		278,050
Bond Principal Payments		(6,590,000)
Bond Interest Payments		(555,221)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES		1,453,101
Increase in Cash and Cash Equivalents		1,337,104
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		40,294,053
CASH AND CASH EQUIVALENTS, END OF YEAR	$	41,631,157
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	$	(27,069)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
(Increase)/Decrease in Loans Receivable		(172,439)
(Increase)/Decrease in Interest Receivable		(10,389)
(Increase)/Decrease in Loan Interest Receivable		5,895
(Increase)/Decrease in Admin Fees Receivable		3,423
Increase/(Decrease) in Accounts Payable & Accrued Liabilities		83,577
Increase/(Decrease) in Compensated Absences		1,005
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	(115,997)

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

B. Reporting Entity

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

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the

1. Summary of Significant Accounting Policies (Continued)

purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The Program on the State accounting system includes the following funds as identified in the Drinking Water State Revolving Fund Act:

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

- Drinking Water Administration Fund – Cash Fund 28630.

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

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

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

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

D. Measurement Focus, Basis of Accounting

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

In reporting the financial activity of its enterprise fund, the Program's management applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989; unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2012, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

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

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

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Drinking Water Program is funded, on average, 83.33% from Federal capitalization grants and 16.67% from State matching funds, except American Recovery and Reinvestment Act (ARRA) funds. ARRA funds do not require State matching funds. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced, and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and accrued interest during the project period. The interest rates on loans range from 2.0% to 4.3% and the terms are

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

between 5 to 20 years. Disadvantaged communities may have up to 30 years to repay. The current and non-current loans receivable amounts were determined using the amount of principal payment due to the Program at June 30, 2012, and classified based on known and anticipated collections during fiscal year 2013.

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

G. Restricted Net Assets

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

H. Use of Estimates

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

I. Compensated Absences

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

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

1. Summary of Significant Accounting Policies (Concluded)

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

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

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

2. Cash in State Treasury and Amounts Held by Trustee

Cash in State Treasury as reported on the balance sheet is under the control of the Nebraska State Treasurer or other administrative bodies as determined by law. Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio including investment policies, risks, and types of investments can be found in the State of Nebraska's CAFR for the fiscal year ended June 30, 2012. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Drinking Water State Revolving Fund Program were designated for investment during fiscal year 2012. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee. The Nebraska Investment Finance Authority (NIFA) (the "Issuer") issues revenue bonds, the proceeds which are used by the Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Bond Indenture. At June 30, 2012, the amount held by the Trustee of $10,703,383

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

was considered cash and cash equivalents and was stated at fair value, except for the amounts invested in Guaranteed Investment Contracts (GICs), where no readily ascertainable fair value was available. For this investment, the Program manager received an estimate of fair value from the Trustee. The amount held by the Trustee consisted of the following:

	Fair Value
Money Market Account	$ 3,449,506
Guaranteed Investment Contracts (GICs) in CDC Funding Corporation	7,253,877
TOTAL	$ 10,703,383

The amounts shown as cash and as a money market account above are deposits as defined by GASB. As such, those deposits have custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Program's deposits may be lost. Of the $3,449,506 in deposits held by the Trustee, $250,000 was covered by FDIC insurance and $3,199,506 was uninsured and uncollateralized during and at the end of the fiscal year ended June 30, 2012, and thus exposed to custodial credit risk. The Program does not have a custodial credit risk policy for deposits.

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

(a) Direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America;

(b) Bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America;

(c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a), (b), or (e) of this definition, or a combination thereof;

(d) Money market funds or similar fund which invests exclusively in obligations described in clause (a), (b), or (e) of this definition, or a combination thereof;

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

(e) Bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority of body or instrumentality thereof which constitute obligations described in Section 103(a) of the Code which have a fixed par value and a fixed amount due at maturity and on call dates and are either rated "MIG 1" by Moody's and rated "SP-1+" by Standard & Poor's for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor's and by Moody's;

(f) Any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under laws of any state, or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bond, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;

(g) Investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a state banking association which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United State branch or agency of a foreign bank, which foreign bank consents to in personal jurisdiction and which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds; or

(h) Obligations of an insurance company which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds.

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

- Credit Risk – Credit risk is a risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization. The GIC was unrated by Standard & Poor's Rating Group and Moody's Investors Services Inc.

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

- Custodial Credit Risk of Investments – Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.

- Concentration of Credit Risk – When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 100% of its total investments in the GIC fund.

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

3. Loans Receivable

As of June 30, 2012, the Program had 126 outstanding balances totaling $96,284,083. The outstanding balances of the ten communities with the largest loan balances, which represent 57% of the total loans, were as follows:

Community	Outstanding Balance
Kearney	$ 9,438,321
McCook	7,687,418
Gering	6,439,083
North Platte	6,095,888
Metropolitan Utilities District	5,288,244
Sidney	5,230,733
Auburn	4,292,627
Blair	4,145,564
Alliance	3,836,373
Beaver Lake Association	2,428,346
TOTAL	$ 54,882,597

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Bonds Payable

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the State's Drinking Water Program. NIFA issues the bonds and the proceeds are held by the Trustee until they are needed by the Program for loan purposes. The Series 2000A, 2004A, 2007A, 2008A, and 2010A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A, 2004A, 2007A, 2008A, and 2010A Bonds are revenue bonds. The Series 2000A, 2004A, 2007A, 2008A, and 2010A Bonds shall not constitute a debt, liability, general obligation of the State, or a pledge of the faith and credit of the State, but are payable solely out of the revenue or money NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged for the payment of the principal of, premium, if any, or the interest on the Series 2000A, 2004A, 2007A, 2008A, and 2010A Bonds. The current bonds payable amount was determined using the amount of bond principal to be retired in fiscal year 2013. Bonds payable for the fiscal year ended June 30, 2012, is as follows:

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

Bonds payable at June 30, 2012, consist of the following:

Series	Original Issue	Retirements	2012 Balance	Interest Rate	Final Maturity Date
2000A	$ 5,530,000	$ 3,235,000	$ 2,295,000	4.8-5.7%	July 1, 2015
2004A	1,890,000	765,000	1,125,000	1.6-4.75%	July 1, 2019
2007A	1,920,000	450,000	1,470,000	3.5-4.35%	Jan. 1, 2022
2008A	1,965,000	335,000	1,630,000	2.75-5.0%	Jan. 1, 2023
2010A	3,110,000	-	3,110,000	0.9-4.0%	July 1, 2025

The 2000A Series Bonds were issued June 29, 2000, the 2004A Series Bonds were issued September 16, 2004, the Series 2007A Bonds were issued September 28, 2007, the Series 2008A Bonds were issued October 3, 2008, and the Series 2010A Bonds were issued November 12, 2010. Bonds mature at various intervals through July 2025. On July 1, 2011, the Agency redeemed series 2001A, 2002A, 2003A, 2005A, 2006A bonds in the principal amount of $5,725,000 and accrued interest in the amount of $124,123. The debt service requirements on bonds maturing in subsequent years are as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Bonds Payable (Concluded)

Year Ending June 30	Principal	Interest	Total
2013	$ 970,000	$ 388,589	$ 1,358,589
2014	1,005,000	350,238	1,355,238
2015	1,030,000	308,896	1,338,896
2016	1,625,000	248,569	1,873,569
2017-2021	3,220,000	737,988	3,957,988
2022-2026	1,780,000	162,963	1,942,963
TOTAL	$ 9,630,000	$ 2,197,243	$ 11,827,243

Federal arbitrage regulations are applicable to these bonds.

5. Noncurrent Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 16,885	$ 2,187	$ 1,182	$ 17,890	$ 1,252

6. Net Assets

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the EPA capitalization grants awarded, drawn, and the remaining balance as of June 30, 2012. The year column relates directly to the grant amount column and represents the year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2012, 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	-

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Net Assets (Concluded)

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 ARRA	19,500,000	19,057,539	442,461
2009	8,146,000	7,382,539	763,461
2010	13,573,000	6,828,669	6,744,331
2011	9,418,000	1,124,131	8,293,869
TOTAL	$ 150,841,726	$ 134,597,604	$ 16,244,122

The 2011 grant was delayed and was not awarded until September 17, 2011, after the end of State fiscal year 2011.

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

Contributed Capital July 1, 2011	$ 129,957,118
Contributed During the Year:	
Funds From EPA	8,320,272
Funds From ARRA	278,050
Contributed Capital June 30, 2012	$ 138,555,440

Also included in the Contributed Capital is a total of all general funds received by the Program from the Legislature of the State of Nebraska. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed $1,162,318 and $1,166,518 in the fiscal years ended June 30, 1998, and 1999, respectively. The State also used $1,629,000 of Administrative Cash Funds to provide the match for the 2009 capitalization grant during the fiscal year ended June 30, 2010.

7. Loan Fees Administration

The reported amount comes from a fee charged to loan recipients each year based on the amount of the loan outstanding. The fee is 1% per annum and is collected semi-annually.

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 Drinking Water State Revolving Fund Program are classified, for financial reporting purposes, into seven categories. There are four set-aside activities established under § 1452 of the Safe Drinking Water Act. The four set-aside activities are:

- 4% Administrative Costs from Grant
- 15% Source Water Assessment Program
- 2% Technical Assistance to Small Systems
- 10% Public Water Supply System

The Nebraska Department of Health and Human Services is provided funding under the following set-asides: Administration, Public Water Supply System, Small Systems Technical Assistance, and Source Water Assessment Program. A Memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services to provide support to the Program.

All are required to be federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are 30% Loan Forgiveness and Interest Expense-State Match Bonds.

Following is an explanation of these categories:

4% Administrative Costs from Grant

A state may use up to 4 percent of the grant funds awarded to it for the reasonable costs of administering the program and providing technical assistance. These costs may include such activities as issuing debt; start up costs; audit costs; financial management; legal consulting fees; development of IUP (Intended Use Plan) and priority ranking system; development of affordability criteria; and costs of support services provided by other state agencies. If the state does not obligate the entire 4 percent for administrative costs in one year, it can bank the excess authority and use it for administrative costs in later years.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Operating Expenses (Continued)

15% Source Water Assessment Program

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

- Assistance to a public water system to acquire land or a conservation easement for source water protection purposes;
- Assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- To support the establishment and implementation of wellhead protection programs; and
- To provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A state may use up to 2 percent of 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 percent for these activities against a given grant award, it can bank the excess authority and use it for the same activities in later years. A state may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A state may use up to 10 percent of the grant funds awarded to:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Operating Expenses (Concluded)

30% Loan Forgiveness

The amount of expenses reported as Loan Forgiveness is the amount the State subsidized principal payments on loans to communities meeting the definition "disadvantaged" or, which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year's capitalization grant cannot exceed 30 percent of the amount of the capitalization grant for that year.

ARRA provided additional funding in the form of loan forgiveness; however, the grant had different forgiveness regulations than annual base Drinking Water grants. ARRA requires the State to use at least 50 percent of the funds provided by this grant to provide additional subsidization in the form of loan forgiveness.

10. State Employees Retirement Plan (Plan)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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

For the fiscal year ended June 30, 2012, employees contributed $8,367 and the Agency contributed $13,474. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

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

11. Contingencies and Commitments

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

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

B. Life insurance for eligible employees.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Contingencies and Commitments (Concluded)

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

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

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

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

12. Subsequent Event

On January 1, 2013, the Agency redeemed series 2004A and 2007A bonds in the principal amount of $2,345,000.

13. Reclassification

For the fiscal year ended June 30, 2012, bond interest expense on the Statement of Revenues, Expenses, and Changes in Net Assets was reclassified from an operating expense to a non-operating expense. On the Statement of Cash Flows bond interest and bond principal payments were reclassified from Cash Flows From Operating Activities to Cash Flows From Non-Capital Financing Activities.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program as of and for the year ended June 30, 2012, and have issued our report thereon dated March 27, 2013. The report was modified to emphasize the financial statements present only the funds of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain matters 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 (Aid Testing), Comment Number 2 (Contractual Expenditures), Comment Number 3 (Cash Management), and Comment Number 4 (Federal Reporting).

The Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

March 27, 2013

Don Dunlap, CPA
Assistant Deputy Auditor

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

Nebraska Department of Environmental Quality
Lincoln, Nebraska

Compliance

We have audited the compliance of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program with the types of compliance requirements described in the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* that were applicable for the year ended June 30, 2012. We audited the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with requirements governing: Allowability for Specific Activities, Allowable Costs/Cost Principles, Cash Management, State Matching, Period of Availability of Funds and Binding Commitments, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions. Compliance with these requirements is the responsibility of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's management. Our responsibility is to express an opinion on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with those requirements.

In our opinion the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Program for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* and which are described in the Comments Section of this report as Comment Number 1 (Aid Testing), Comment Number 2 (Contractual Expenditures), Comment Number 3 (Cash Management), and Comment Number 4 (Federal Reporting).

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 requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's internal control over compliance with requirements that could have a direct and material effect on the Program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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

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. We did not audit the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's response and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

March 27, 2013

Don Dunlap CPA
Assistant Deputy Auditor

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY2013 LOANS				
PWS System	Project Name	Project Description	Public Health Impact Description	Comments
BEE, VILLAGE OF	Corrosion Control with Blending, Repaint Tower and Replace Mains	In February 2010, a Preliminary Engineering Report (PER) that evaluated Bee's water system needs was completed. Their Public Water System (PWS) consists of two municipal wells, an elevated 50,000 gallon water storage tower, and a distribution system. The Village's primary Well No. 67-1 has a capacity of 150 gallons per minute (gpm) and is in operable condition; however, this shallow well has noted Nitrate concerns with recent monitoring up to 8.12 mg/L, historically ranging up to 9.2 mg/L. Bee's backup Well No. 90-1 has a lower pumping capacity at 60 gpm and is screened in a deeper formation. A separate quality concern is that the water withdrawn that well is corrosive, presenting a separate set of operational challenges. Several alternatives were evaluated including constructing a new well, treating then blending the existing well supplies and connecting to the City of Seward. The evaluation of treating then blending of existing water well supplies was determined to be sustainable in that either supply well can be replaced in the future, when necessary, with the Village remaining in compliance with drinking water standards. In addition, the engineering report noted the 2008 inspection records of the water tower, wherein the tank contractor noted the exterior paint is worn, faded and showing signs of rust, thus in need of an exterior recoating. Based upon that information it was recommended that the Village proceed with a corrosion control with blending and tank repaint project. Also, a section of the distribution system will be replaced with a new 6" main to the water tower and new isolation valves will be installed.	The Village's primary Well No. 67-1 has noted Nitrate concerns with recent monitoring up to 8.12 mg/L, historically ranging up to 9.2 mg/L. Bee's backup Well No. 90-1 has a lower pumping capacity at 60 gpm and is screened in a deeper formation. A separate quality concern is noted for that well as the water withdrawn is corrosive, presenting a separate set of operational challenges. Corrosion control along with blending will address both concerns.	A portion of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
BRUNSWICK, VILLAGE OF	Reline Casing in Well No. 99-1	The Village of Brunswick has relined its existing primary supply Well No. 99-1 due to casing failures.	Brunswick was issued a Violation for exceeding the Maximum Contaminant Level for Nitrates while operating their backup well. As such, relining Well No. 99-1 is necessary to allow for that backup well to be placed back on emergency use only status, should future violations of the Nitrate standard be established through required monitoring.	N/A
DAYKIN, VILLAGE OF	Replace Wells, Meters and Loop Mains	In June 2012, the Village's Engineer drafted a PER that evaluated Daykin's water system needs. The PWS consists of two municipal wells, Nos. 48-1 and 73-1, an elevated 40,000 gallon water storage tower and a distribution system. Both wells exceed the average operational life of a community PWS supply well in Nebraska. Further, a video-survey of the oldest well showed a severely pitted casing and records show the other well was constructed with transite casing. The engineering report recommended that due to age, deterioration and methods of construction both wells should be replaced. In 2010, the water tower was repainted and was noted to be in good condition, and should continue to provide a useful service so long as proper maintenance occurs. The report concluded that old service meters should be replaced and dead-end sections of the Village's distribution system should be looped. In addition, there are a handful of unmetered service connections that must have meters installed in order for Daykin to receive DWSRF funding.	N/A	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
DENTON, VILLAGE OF	Water Treatment Plant with Raw Water Transmission Main	In January of 2010, the Village was issued an Administrative Order (A.O.) for Combined Radium 226/228 Maximum Contaminant Level violations. In October of 2010, a PER of Denton's water system evaluated the systems needs. Numerous treatment, new source and system consolidation alternatives were evaluated, with a recommendation made for centralized treatment using adsorptive media to remove radium, with subsequent filtration to remove iron, manganese and total suspended solids included with the formal project design. A cost-benefit analysis showed adsorptive media to be the most cost-effective option in that no radioactive liquid waste would be generated, required no chemical addition, or handling of radioactive materials, as the proprietary treatment media is supplied by a company licensed and responsible for the disposal of any generated low-level radioactive waste through a permit under the State's Radiation Control Program. The project will also include well pump improvements and 650 feet of raw water transmission main to tie the existing supply wells together prior to treatment.	In January of 2010, the Village was issued an A.O. for Combined Radium 226/228 Maximum Contaminant Level violations. Recent testing through the Fourth Quarter of 2011 showed combined radium running annual averages of 6.68 and 5.96 pCi/L in Well Nos. 72-1 and 94-1, respectively; both measurable above the drinking water standard of 5 pCi/L.	N/A
ELGIN, CITY OF	Replacement Well and Distribution System Improvements	In September 2012, a PER was completed that evaluated Elgin's water system needs. The PWS consists of two municipal wells, an elevated 50,000 gallon water storage tower and a distribution system. The City's primary Well No. 88-1 has a capacity of 570 gpm and is in operable condition. Elgin's backup Well No. 77-1 has a similar pumping capacity but is trending out of compliance with the Maximum Contaminant Level for Arsenic. The report also indicated both the water tower and most of the City's distribution system is old and undersized. Built in the early 1900's, most of the water mains are 4-inch sized cast iron pipe. A significant amount is recommended for replacement, with noted short, intermediate and long-term phases. The 9,700 feet of mains scheduled for replacement in the short-term phase are critical in addressing areas with significant deterioration or for improving the hydraulic capacity of the distribution system, as the replacement pipe will be predominantly 8-inched sized.	Elgin's backup Well No. 77-1 is trending out of compliance with the Maximum Contaminant Level for Arsenic. In February 2012, testing showed an Arsenic level of 14.9 µg/L, and subsequent quarterly monitoring detected levels between 11.9 to 13.9 µg/L. If levels remain above the drinking water standard of 10 µg/L, the community will be issued an A.O. to return to compliance.	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
LEIGH, VILLAGE OF	Replace Well, Rehabilitate Tower and Loop Mains	In February 2012, a PER was completed that evaluated Leigh's water system needs. The PWS consists of two municipal wells, an elevated 50,000 gallon water storage tower and a distribution system. The Village's primary Well No. 90-1 has a capacity of 400 gpm and is in operable condition. Leigh's backup Well No. 74-1 had a similar pumping capacity but is out of service and not repairable due to casing failure. In addition, the report noted the 2010 inspection records of the water tower, wherein the tank contractor stated the Village's tower needed a full rehabilitation (i.e., repaint, safety and vent improvements, etc.). Based upon that information it was recommended that the Village proceed with a replacement water well and tank rehabilitation project. A well site has been identified that will allow the Village to re-use the existing piping from Well No. 74-1. Repair of the tower will ensure that the future needs of the community are met. Also, a small dead-end section of the distribution system will be looped with new main.	Well No. 74-1 had a noted rise in Nitrate levels up to a January 2012 level of 12.7 mg/L, significantly above the Maximum Contaminant Level. The engineering report concluded though that the Nitrate levels were attributable to the failure of the well casing, well construction method and the diminished use of the well of the past 2 years prior to complete failure of the casing.	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
LOUP CITY, CITY OF	Replacement Water Service Meters	The installation will consist of an upgrade to automatic radio read meters and thus are categorically eligible for funding under the Green Project Reserve.	N/A	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
NORTH LOUP, VILLAGE OF	Water Treatment Plant for Arsenic Removal, Replacement Water Tower and Distribution System Improvements	In February 2011, a Water System Evaluation was completed by the Village's engineer. The PWS consists of two municipal wells, an elevated 42,000 gallon water storage tower and a distribution system. The Village's wells Nos. 91-1 and 82-1 have a similar pumping capacities at 360 and 380 gpm, respectively. The Village has been issued an A.O. to return into compliance with Arsenic drinking water standard. The Village Board determined that the treatment alternative had the lowest capital cost and achieved permanent compliance with the Arsenic drinking water standard, even though treatment will result in higher annual operation and maintenance costs. In addition, recommended as part of the evaluation was the replacement of the Village's water tower that was originally constructed in 1915 and is noted to have heavy corrosion and delamination, generally in a state of poor condition. Further, replacement of sections of the distribution system due to age, deterioration and undersized piping was recommended, as well as replacing numerous inoperable hydrants and valves.	Through routine monitoring, elevated levels of Arsenic have been detected at both Village wells, with results ranging up to 13.6 µg/L. As those results on a running annual average have exceeded the Maximum Contaminant Level in Well No. 91-1, the Village has been issued an A.O. to return into compliance with Arsenic drinking water standard.	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
RAVENNA, CITY OF	Replacement Well with Transmission Main, Replacement Storage Tank, Water Main Replacement & Distribution System Improvements	The City's PWS has two active wells, Nos. 52-1 and 97-1, with average capacities of 500 gpm and one backup Well No. 68-1 designated for emergency use only due to sand pumping. Further, in April 2009 the City lost another well (No. 40-1) to abandonment, as a result of a casing failure. Historical monitoring of the supply sources shows no concerns with maintaining compliance with Maximum Contaminant Levels. There are no known problems with the City's two primary supply wells; however, the nearly 60 year old age of Well No. 52-1 and the continued performance of its 6 gauge shutter screen is a long-term sustainability concern. That concern in conjunction with the recent abandonment of Well No. 40-1, establishes the need to develop a new well source. The replacement well will be equipped with an emergency generator so that supply can be maintained during power outages. A well site has been approved. Storage for the distribution system is provided through a ~400,000 gallon concrete ground reservoir, which was constructed in the 1930's. Adjacent to the reservoir is a booster station equipped with three high service pumps with average capacities of 240 gpm. Several inspections in the mid-1990's noted structural problems in the concrete reservoir, including cracks, spalls and deflections at the bearing points of the roof girders. Minimal repairs were made in 1995 in order for the reservoir to remain in service until a new storage facility could be constructed. Those past efforts coupled with an earlier failure of the reservoir's east face demonstrate the need for the City to replace its storage facility. A new 300,000 gallon water tower is proposed. Due to the size and scope of the overall project, and the financial impact to the development of capacity for the PWS, the demolition of the existing reservoir is considered integral to the project and may also be funded through the DWSRF. Nearly half of the existing distribution system consists of undersized 1" to 4" sized water main, the majority of which is ductile or aging cast iron pipe. The Water System Evaluation proposed improvements for the distribution system in three phases. The 1st and 2nd phases are minimal improvements that will improve the operation and maintenance of the distribution system, with minimal cost. The last phase involves the replacement and upsizing of arterial water mains that are predominantly the aging portions of the system. Lastly, the system will be replacing its' water service meters.	N/A	The water meter replacements will consist of an upgrade to automatic radio read meters and thus are categorically eligible for funding under the Green Project Reserve. Further, the majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.
ST. HELENA VILLAGE OF	Replacement Water Storage Tank	A PER developed in March 2010 concluded that the tank is in poor to fair condition for its age, primarily based upon that it has leaked to varying degrees for the last 20 years. Inspections in 2007 noted corrosion and indicated that any subsequent sandblasting of the tank would ruin the seals. Accordingly, it was recommended that the tank be replaced. The existing tank is located on a small property owned by the Village and its demolition is considered integral to the proposed project due to access for future maintenance projects and the financial impact to the development of capacity for the PWS.	N/A	The majority of the project achieves a goal in the EPAs Drinking Water Infrastructure Sustainability Policy for the upgrade and/or replacement of existing infrastructure.