

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

JULY 1, 1999 THROUGH JUNE 30, 2000

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

BACKGROUND

The Nebraska Department of Environment Quality Drinking Water State Revolving Fund (Fund), Neb. Rev. Stat. Sections 71-5314 to 71-5327 R.S. Supp., 2000 was established pursuant to the federal Safe Drinking Water Act, as amended in 1996. The federal Safe Drinking Water Act established the Drinking Water State Revolving Fund (DWSRF) program to provide loans at reduced interest rates to finance the construction of publicly-owned and privately-owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of treatment facilities, the DWSRF provides for low interest rate loans to finance the entire cost of qualified projects. The DWSRF provides a flexible financing source that can be used for a variety of projects. Loans made by the Fund must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the fund. Disadvantaged communities must repay all loans within 30 years.

The fund 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, 2000, the EPA awarded \$19.9 million in capitalization grants to the State. This \$19.9 million in awards required the State to contribute \$3.98 million in matching funds by September 30, 1999. The State provided appropriations to contribute \$2.33 million of the funds to meet the State's matching requirement. Additional funding was obtained through the issuance of bonds during FY 2000. The Nebraska Investment Finance Authority (NIFA) issued general obligation bonds for \$2,000,000 during September 1999. In June of 2000 a revenue bond issue for \$5,530,000 was completed. The general obligation bonds were paid back with proceeds from the June bond issue.

The Fund is administered by the Nebraska Department of Environmental Quality (NDEQ) and the Nebraska Department of Health & Human Services - Regulation & Licensure (NDHHS-R&L). The NDEQ's primary activities with regard to the Fund include the making of loans for facilities and the management and coordination of the Fund. The Nebraska Environmental Quality Council approves the regulations of the NDEQ. The NDHHS-R&L sets the funding priorities.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 general purpose financial statements present only the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund and are not intended to present fairly the financial position and results of operations of the State of Nebraska, in conformity with generally accepted accounting principles.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2001, on our consideration of Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

February 2, 2001

A handwritten signature in dark ink, appearing to read "Don Dunlap", is positioned above a vertical line.

Manager

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
As of June 30, 2000

ASSETS:

CURRENT ASSETS:

Cash in State Treasury	\$ 856,231
Cash Held by Trustee (Bond Proceeds)	4,288,657
Discount on Bonds	12,875
Cash Held by Trustee (Special Reserve)	536,935
Loans Receivable Current Portion	1,575,582
TOTAL CURRENT ASSETS	<u>7,270,280</u>

NONCURRENT ASSETS:

Loans Receivable	<u>8,048,973</u>
TOTAL NONCURRENT ASSETS	<u>8,048,973</u>
TOTAL ASSETS	<u><u>\$ 15,319,253</u></u>

LIABILITIES AND FUND EQUITY:

LIABILITIES:

CURRENT LIABILITIES:

Accounts Payable	\$ 96
Bond Issuance Cost Payable	154,463
Bonds Payable - Current	160,000
TOTAL CURRENT LIABILITIES	<u>314,559</u>

NONCURRENT LIABILITIES:

Bonds Payable - Long Term	<u>5,370,000</u>
TOTAL NONCURRENT LIABILITIES	<u>5,370,000</u>
TOTAL LIABILITIES	<u><u>\$ 5,684,559</u></u>

FUND EQUITY:

Contributed Capital EPA Grants	10,607,833
State Match Appropriation	<u>2,328,836</u>
TOTAL CONTRIBUTED CAPITAL	<u>12,936,669</u>

RETAINED EARNINGS (3,301,975)

TOTAL FUND EQUITY 9,634,694

TOTAL LIABILITIES AND FUND EQUITY \$ 15,319,253

See Notes to the Financial Statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
 For the Period Ending June 30, 2000

OPERATING REVENUES:

Loan Fees Administration	\$ 71,544
Interest on Loans	45,362
TOTAL OPERATING REVENUES	<u>116,906</u>

OPERATING EXPENSES:

15% Source Water Assessment Program	107,202
4% Administration	308,160
2% Technical Assistance to Small Systems	100,274
10% Public Water Supply System	302,186
30% Loan Forgiveness	1,888,385
TOTAL OPERATING EXPENSES	<u>2,706,207</u>

OPERATING LOSS (2,589,301)

NON OPERATING REVENUES (EXPENSES):

Interest on Fund Balance	76,560
Cost of Bond Issuance	(249,806)
Interest Expense - State Match Bonds	(60,000)
TOTAL NON OPERATING (EXPENSES)	<u>(233,246)</u>

NET LOSS (2,822,547)

RETAINED EARNINGS JULY 1, 1999 (479,428)

RETAINED EARNINGS JUNE 30, 2000 \$ (3,301,975)

See Notes to the Financial Statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
For the Period Ended June 30, 2000

OPERATING NET INCOME	\$ (2,589,301)
ADJUSTMENT TO RECONCILE OPERATING LOSS TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES:	
Increase (Decrease) in Payables	(13,922)
TOTAL ADJUSTMENTS TO OPERATING LOSS	<u>(13,922)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(2,603,223)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Increase in Bond Issuance Payable	154,463
Funds Received from EPA	9,292,457
Bond Issuance 1999 & 2000A Series	7,517,125
Principal Payments on Bonds	<u>(2,000,000)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	14,964,045
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net Loss from Investing Activities	(233,246)
Principal Received on Loans	683,021
Loans to Communities	<u>(9,441,537)</u>
NET CASH FROM INVESTING ACTIVITIES	(8,991,762)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,369,060
CASH AND CASH EQUIVALENTS, JULY 1, 1999	<u>2,312,763</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2000	<u><u>\$ 5,681,823</u></u>

See Notes to the Financial Statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

1. **Summary of Significant Accounting Policies**

- A. **Basis of Presentation.** The accompanying financial statements of the Nebraska Department of Environmental Quality (the Department) - Drinking Water State Revolving Fund (the Fund) have been prepared in conformance with generally accepted accounting principles (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 financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services.

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

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

- c. **Fund Structure.** The Fund'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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 Fund is made up of four funds on the State of Nebraska Accounting System. It includes the following funds as identified in the State Drinking Water State Revolving Fund Act:

- Drinking Water Facilities Fund – General Fund 1000, Federal Fund 4841, and Trust Fund 6848
- Land Acquisition and Source Water Loan Fund – Federal Fund 4841
- Drinking Water Administration Fund – Cash Fund 2863.

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

The activity of these four 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 Fund's transactions in this manner is a requirement of the Environmental Protection Agency (EPA) as they and the Department have decided that the determination of revenues earned, expenses incurred and/or net income is necessary to demonstrate the success of the Fund and to assure the EPA that the Fund will be available in perpetuity as intended.

- D. 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. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

In reporting the financial activity of its enterprise fund, the Fund'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 Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedures.

- E. Loans Receivables.** The State operates the Fund as a direct loan program, whereby loans are made to communities. The entire Drinking Water program is funded, on the average, 83.33% from federal capitalization grants and 16.67% from 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 that 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 3% to 4% and the terms of between 5 to 20 years. Disadvantaged communities may have up to 30 years to repay.

No provisions have been made for uncollectible accounts as all loans are current, and management believed all loans would be repaid according to the loan terms. There is a provision for the Fund to intercept State aid to a community which is in default of their loan.

As of June 30, 2000 the Fund had made loans to twenty-one communities that exceeded \$9,624,000. The outstanding balances of these twenty-one loans are as follows:

City	Outstanding Balance
Albion	\$ 155,852
Arlington	1,564,523
Brady	188,405
Brunswick	177,050
Chadron	617,536
Crawford	427,560
Emerson	352,367
Falls City	1,715,186
Gothenburg	141,567

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

<u>City</u>	<u>Outstanding Balance</u>
Gurley	171,285
Holdrege	270,368
Jackson	110,425
Kennard	456,245
Norfolk	1,690,365
Oakland	109,543
Papio-Missouri Natural Resource District	321,438
Stanton	125,697
Stratton	135,960
Tecumseh	445,704
Utica	390,074
Waco	57,405
Total	<u>\$ 9,624,555</u>

- F. Accounts Payable.** Due to limitations of the State of Nebraska Accounting System a cutoff must be made at July 31 of each year when determining the amount of accounts payable that exists for the current year. Any information that would change this figure will be disregarded and shown as an expense of the year the payment is made and not when the liability is incurred.

2. Cash and Cash Equivalents

- **Cash in State Treasury.** Cash in State Treasury as reported on the balance sheet is under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is maintained in a short-term investment pool. The State Investment Officer invests the deposited cash in short-term securities and other investments. 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 were designated for investment during fiscal year 2000. Amounts are allocated on a monthly basis based on average balances of all invested funds.
- **Cash Held by Trustee.** The Nebraska Investment Finance Authority (NIFA) (the "Issuer") issues revenue bonds payable by the Department from certain portions of the fund (see Bonds Payable) to provide additional funds to meet the

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Cash and Cash Equivalents (Concluded)

20% match requirements of the Capitalization Grants. Wells Fargo Bank Iowa, National Association, (Trustee), as trustee, holds these accounts. The trustee, in accordance with the Bond Indenture, establishes the appropriate accounts and invests the monies. At June 30, 2000, the cash held by trustee of \$4,825,592, stated at Fair Market Value, was invested in the following investments:

	Fair Market Value
Guaranteed Investment Contracts – GIC's	\$ 4,671,129
Money Market Account	154,463
Total	<u>\$ 4,825,592</u>

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, deposits and investments are to be categorized as to custodial credit risk.

Guaranteed Investment Contracts (GICs) and Money Market Accounts are not required to be categorized as to custodial credit risk under GASB Statement No. 3.

3. Bonds Payable

The State has entered into a special financing arrangement with the Nebraska Investment Finance Authority (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 proceeds are held by the Trustee until needed by the Fund for loan purposes. The Series 2000A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A Bonds are revenue bonds. The Series 2000A 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 of NIFA pledged to the Trust Estate. Neither the faith and credit nor the taxing power of the State is pledged to the principal of, premium, if any, or the interest on the Series 2000A Bonds.

The 1999 Series Bond was issued as a general obligation Bond of NIFA. Proceeds were used to provide matching funds until revenue bonds could be issued. The 1999 Series Bond was retired by proceeds from Series 2000A Bonds.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Bonds Payable (Concluded)

Changes in bonds payable for the fiscal year ended June 30, 2000, is as follows:

Series	Original Issue	Retirements	2000 Balance	Interest Rates	Final Maturity Date
1999	2,000,000	2,000,000	-	-	-
2000A	5,530,000	-	5,530,000	4.8-5.7%	July 1, 2015

The 2000A Series Bonds were issued June 29, 2000. Bonds mature at various intervals through July 2015. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principle	Interest	Total
2001	\$ -	\$ 151,472	\$ 151,472
2002	160,000	295,775	455,775
2003	245,000	285,810	530,810
2004	255,000	273,246	528,246
2005	270,000	259,923	529,923
Thereafter	4,600,000	1,684,511	6,284,511

Series 1999 Bond Issue for the Drinking Water SRF in the amount of \$2,000,000 was refunded on June 29, 2000 with proceeds from the 2000A Series issued in the amount of \$5,530,000.

4. Capitalization Grants Awarded

This amount is the total amount of capitalization grants drawn from the EPA by the Department. The following summarize the capitalization grants awarded, drawn, and the remaining balance as of June 30, 2000.

Year	Grant Amount	Amount Drawn	Balance
1997	\$ 12,824,000	\$ 10,500,545	\$ 2,323,455
1998	7,121,300	126,639	6,994,661

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. Change in Contributed Capital

Contributed Capital July 1, 1999	\$ 3,644,212
Contributed During the Year Funds - Received	
From EPA	<u>9,292,457</u>
Contributed Capital June 30, 2000	<u><u>\$ 12,936,669</u></u>

6. State Match Appropriations

This amount is a total of all General Funds received by the program from the Legislature of the State of Nebraska. These funds 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 fiscal years ended June 30, 1998 and 1999, respectively and \$0 for fiscal year ended June 30, 2000.

7. Administration Fees on Loans

The reported amount for fiscal year 2000 of \$71,544 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. Of the total collected, \$0 was used as match for the capitalization grant.

8. Interest on Fund Balance Held by State Treasurer

The reported amount of \$76,560 for fiscal year 2000 represents the earnings the Fund has received from idle funds invested by the Treasurer of the State of Nebraska. Interest is credited on the second business day each month.

9. Operating Expenses

The Operating Expenses of the Drinking Water State Revolving Fund Program are classified, for financial reporting purposes, into five categories. There are four Set-A-Side Activities established under Section 1452 of the Safe Drinking Water Act. The four Set-A-Side activities are:

- 15% Source Water Assessment Program
- 4% Administration
- 2% Technical Assistance to Small Systems
- 10% Public Water Supply System

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. Operating Expenses (Continued)

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. The fifth category of expenses is the 30% Loan Forgiveness.

Following is an explanation of each category:

15% Source Water Assessment Program

Identified in Federal regulations as local assistance and other State Programs, the 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 the wellhead protection programs;
- To provide funding to a Public Water System to implement a technical and/or financial assistance under the capacity development strategy.

4% Administration

A State may use up to 4 percent of the 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; DWSRF start up costs; audit costs; financial management; and 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 four-percent for administrative costs in one year, it can bank the excess balance and use it for administrative costs in later years.

2% Technical Assistance to Small Systems

A State may use up to 2 percent of its allotment 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 allotment, it can bank the excess balance 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. Operating Expenses (Concluded)

10% Public Water Supply System

A State may use up to 10 percent of its allotment to:

- Administer the State PWSS program (Public Water Supply System)
- 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 forgave loans to Communities meeting the definition “disadvantaged” or, which the State expects the Community 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.

The Nebraska Department of Health and Human Services is provided funding under the following Set-A-Sides: Administrative, Public Water Supply System, and Small Systems Technical Assistance. A memorandum of Understanding was entered into between both agencies to provide support of the Drinking Water State Revolving Fund.

10. State Employees’ Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended through Legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and twelve months of service within a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, the Drinking Water State Revolving Fund employees of the Department contributed \$13,110 and the Department contributed \$20,451 for these employees.

11. Contingencies and Commitments

Risk Management. The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State has chosen not to purchase insurance except for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million annually with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis including the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. **Contingencies and Commitments** (Concluded)

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and 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 Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund's financial statements.

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

STATE OF NEBRASKA
Auditor of Public Accounts



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

We have audited the financial statements of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund as of and for the year ended June 30, 2000, and have issued our report thereon dated February 2, 2001. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. We noted a certain immaterial instance of noncompliance that we have reported to management in a separate letter dated February 2, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund in a separate letter dated February 2, 2001.

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

February 2, 2001

A handwritten signature in black ink, reading "Don Dunlap". The signature is written in a cursive style with a vertical line to its right.

Manager