

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
DRINKING WATER
STATE REVOLVING FUND PROGRAM
JULY 1, 2000 THROUGH JUNE 30, 2001**

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act, as amended in 1996. Neb. Rev. Stat. Sections 71-5314 to 71-5327 R.S. Supp., 2000 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 owned 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, 2001, the EPA had awarded approximately \$35 million in capitalization grants to the State. The award of this \$35 million required the State to contribute approximately \$7 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 funding was obtained through the issuance of \$5,530,000 in revenue bonds in June of 2000 and \$1,815,000 in revenue bonds in March of 2001.

The Program is administered by the Nebraska Department of Environmental Quality (Department) and the Nebraska Health and Human Services System – Regulation & Licensure (NHHS-R&L). The Department'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 Department and the Program's Intended Use Plan. The NHHS-R&L sets the funding priorities.

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the accompanying general purpose financial statements of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these general purpose 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 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 Program 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 Program, as of June 30, 2001, and the results of its operations and cash flows 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 January 3, 2002, 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 grants. 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.

A handwritten signature in dark ink, reading "Timothy J. Channer CPA". The signature is fluid and cursive, with the letters "T", "J", and "C" being particularly prominent.

Manager

January 3, 2002

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
 As of June 30, 2001

ASSETS:

CURRENT ASSETS:

Cash in State Treasury (Note 2)	\$ 2,350,758
Cash Held by Trustee (Bond Proceeds) (Note 2)	3,315,284
Cash Held by Trustee (Special Reserve) (Note 2)	714,380
Loans Receivable Current Portion	1,762,457
TOTAL CURRENT ASSETS	<u>8,142,879</u>

NONCURRENT ASSETS:

Loans Receivable	21,178,133
TOTAL NONCURRENT ASSETS	<u>21,178,133</u>

TOTAL ASSETS	<u><u>\$ 29,321,012</u></u>
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LIABILITIES AND FUND EQUITY:

LIABILITIES:

CURRENT LIABILITIES:

Accounts Payable	\$ 1,919
Accrued Interest Payable	171,867
Bond Issuance Payable	1,420
Bonds Payable - Current (Note 3)	160,000
TOTAL CURRENT LIABILITIES	<u>\$ 335,206</u>

NONCURRENT LIABILITIES:

Bonds Payable - Long Term (Note 3)	7,185,000
TOTAL NONCURRENT LIABILITIES	<u>7,185,000</u>

TOTAL LIABILITIES	<u><u>\$ 7,520,206</u></u>
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FUND EQUITY:

Contributed Capital EPA Grants (Note 4, 5)	\$ 24,107,078
State Match Appropriation (Note 6)	2,328,836
TOTAL CONTRIBUTED CAPITAL	<u>26,435,914</u>

RETAINED EARNINGS (Note 10)	(4,635,109)
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TOTAL FUND EQUITY	<u>21,800,805</u>
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TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 29,321,011</u></u>
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The accompanying notes are an integral part of the general purpose 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, 2001

OPERATING REVENUES:

Loan Fees Administration (Note 7)	\$ 182,051
Interest on Loans	488,809
TOTAL OPERATING REVENUES	<u>670,860</u>

OPERATING EXPENSES:

15% Source Water Assessment Program (Note 9)	174,406
4% Administration (Note 9)	353,874
2% Technical Assistance to Small Systems (Note 9)	118,872
10% Public Water Supply System (Note 9)	100,513
30% Loan Forgiveness (Note 9)	1,216,984
TOTAL OPERATING EXPENSES	<u>1,964,649</u>

OPERATING LOSS	(1,293,789)
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NON-OPERATING REVENUES (EXPENSES):

Interest on Fund Balance Trustee	257,030
Interest on Fund Balance (Note 8)	62,445
Cost of Bond Issuance	(22,383)
Bond Discount Amortization Expense	(12,875)
Interest Expense - State Match Bonds	(323,561)
TOTAL NON-OPERATING (EXPENSES)	<u>(39,344)</u>

NET LOSS	(1,333,134)
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RETAINED EARNINGS JULY 1	<u>(3,301,975)</u>
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RETAINED EARNINGS JUNE 30 (Note 10)	<u><u>\$ (4,635,109)</u></u>
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The accompanying notes are an integral part of the general purpose financial statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
 For the Period Ended June 30, 2001

OPERATING LOSS	\$ (1,293,789)
ADJUSTMENT TO RECONCILE OPERATING LOSS TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES:	
Principal Received on Loans	1,178,510
Loans to Communities	(14,494,545)
Increase in Payables	1,823
TOTAL ADJUSTMENTS TO OPERATING LOSS	<u>(13,314,212)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(14,608,001)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:	
(Decrease) in Bond Issuance Payable	(153,043)
Increase in Bond Interest Payable	171,867
Amortization of Bond Discounts	12,875
Funds Received from EPA	13,499,245
Bond Issuance 2001A Series	1,815,000
NET CASH FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>15,345,944</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net Loss from Investing Activities	(39,344)
NET CASH FROM INVESTING ACTIVITIES	<u>(39,344)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	698,599
CASH AND CASH EQUIVALENTS, JULY 1, 2000	<u>5,681,823</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2001	<u>\$ 6,380,422</u>

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

- A. Basis of Presentation.** The accompanying general purpose financial statements of the Nebraska Department of Environmental Quality (Department) - Drinking Water State Revolving Fund Program (Program) 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 general purpose financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services and the Trustee (Wells Fargo Bank, Iowa) for the State match bond accounts.

- B. Reporting Entity.** The Program is a program within the Department and is established under and governed by the Safe Drinking Water Act of the Federal Government and by 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 Program's management has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Program'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 Program. No component units were identified. The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program is part of the primary government for the State of Nebraska's reporting entity.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

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

- Drinking Water Facilities Loan 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 Program.

The activity of these four State of Nebraska funds have been combined and reported as an enterprise fund, which under governmental generally accepted accounting principles 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 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 Department have decided 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 that the Program 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 this 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 (e.g., revenues) and decreases (e.g., expenses) in net total assets.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE 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 Governmental Accounting Standards Board (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% with terms of between 5 to 20 years. Disadvantaged communities may have up to 30 years to repay. The current loans receivable amount was determined using the amount of principal payment due to the Drinking Water State Revolving Fund Program at June 30, 2001, which was collectible in fiscal year 2002.

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 Program to intercept State aid to a community which is in default of their loan.

As of June 30, 2001, the Program had made loans to eight communities in excess of \$16 million. The outstanding balances of these eight loans, which represent approximately seventy percent of the total loans receivable, are as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

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

City	Outstanding Balance
Blair	\$ 5,840,733
North Platte	2,528,496
Falls City	1,864,326
Norfolk	1,737,538
Arlington	1,507,236
Plattsmouth	1,361,848
Chadron	682,400
Hebron	618,817
Total	<u>\$ 16,141,394</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 is 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 Program were designated for investment during fiscal year 2001. 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) ("Issuer") issues revenue bonds payable by the Department from certain portions of the fund (see Bonds Payable) to provide additional funds to meet the 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, 2001, the cash held by trustee of \$4,029,664, stated at Fair Market Value, was invested as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

2. Cash and Cash Equivalents (Concluded)

	<u>Fair Market Value</u>
Guaranteed Investment Contracts – GIC’s	\$ 2,248,325
Money Market Account	1,781,339
Total	<u>\$ 4,029,664</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 (GIC’s) 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 Program for loan purposes. The Series 2000A and 2001A Bonds are limited obligations of NIFA, payable only from and secured only by the Trust Estate. The Series 2000A and 2001A Bonds are revenue bonds. The Series 2000A and 2001A 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 are pledged to the principal of, premium, if any, or the interest on the Series 2000A or 2001A Bonds.

Changes in bonds payable for the fiscal year ended June 30, 2001, is as follows:

Series	Original Issue	Retirements	2001 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
2001A	1,815,000	-	1,815,000	3.9-5.15%	Jan 1, 2016

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

3. Bonds Payable (Concluded)

The 2000A Series Bonds were issued June 29, 2000 and the 2001A Series Bonds were issued March 28, 2001. Bonds mature at various intervals through January 2016. The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2002	\$ 160,000	\$ 360,529	\$ 520,529
2003	330,000	371,200	701,200
2004	345,000	355,321	700,321
2005	365,000	338,443	703,443
2006	375,000	320,500	695,500
Thereafter	5,770,000	1,906,831	7,676,831

4. Capitalization Grants Awarded

This amount is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the capitalization grants awarded and drawn, and the remaining balance as of June 30, 2001.

Year	Grant Amount	Amount Drawn	Balance
1997	\$ 12,824,000	\$ 11,249,152	\$ 1,574,848
1998	7,121,300	5,999,657	1,121,643
1999	7,463,800	6,258,475	1,205,325
2000	7,757,000	599,794	7,157,206
Totals	\$ 35,166,100	\$ 24,107,078	\$ 11,059,022

5. Change in Contributed Capital

The following is a summary of changes in Contributed Capital.

Contributed Capital July 1, 2000	\$ 12,936,669
Contributed During the Fiscal Year,	
Funds - Received From EPA	13,499,245
Contributed Capital June 30, 2001	\$ 26,435,914

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

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.

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. 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 represents the earnings the Program has received from idle funds invested by the Treasurer of the State of Nebraska. 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 five categories. There are four Set-Aside Activities established under Section 1452 of the Safe Drinking Water Act. The four Set-Aside activities are:

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

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% qualifying for Loan Forgiveness.

Following is an explanation of each category:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

9. Operating Expenses (Continued)

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;
- Funding to delineate and assess source water protection areas;
- Support for the establishment and implementation of the wellhead protection programs;
- Funding to Public Water Systems for technical and/or financial assistance for capacity development.

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; Program 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.

10% Public Water Supply System

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

9. Operating Expenses (Concluded)

30% Loan Forgiveness

The amount reported as Loan Forgiveness is the amount of loans the State forgave 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.

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

10. Retained Earnings June 30

The negative Retained Earnings balance at June 30, 2001, in the amount of \$4,635,109, is the result of the newness of the Program since its beginning in the fiscal year ended June 30, 1998. The Program’s net loss has decreased from a loss of \$2,822,547 in the fiscal year ended June 30, 2000 to a loss of \$1,333,134 in the fiscal year ending June 30, 2001. Program management indicated the negative balance in retained earnings should eventually be eliminated as increased loans result in increased revenues from loan administration fees and interest.

11. 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 by 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 mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

11. 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, 2001, employees contributed \$9,536 and the Department contributed \$14,877.

12. Contingencies and Commitments

Risk Management. The Department 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 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 generally self-insures for general liability 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. Insurance is also purchased for medical payments, 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. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- 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 \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

12. Contingencies and Commitments (Concluded)

- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund 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 Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's financial statements.

13. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State's revenue and expenditure recognition, and assets, liabilities and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

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

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the general purpose financial statements of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program as of and for the year ended June 30, 2001, and have issued our report thereon dated January 3, 2002. 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 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.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program'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 of the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program in a separate letter dated January 3, 2002.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 The Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program in a separate letter dated January 3, 2002.

This report is intended solely for the information and use of the Department, 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Manager

January 3, 2002