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

JULY 1, 2009 THROUGH JUNE 30, 2010

Issued on December 6, 2010

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program (Program) was established pursuant to Title VI of the Federal Clean Water Act, as amended by the Water Quality Act of 1987. Neb. Rev. Stat. § 81-15,147 created the Wastewater Treatment Facilities Construction Assistance Act. The Federal Water Quality Act and State statutes established the Clean Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of the building of wastewater treatment 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. The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1989. 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, 2010, the EPA had awarded $157 million in Capitalization grants to the State. Of the $157 million awarded, approximately $20 million was funded by the American Recovery and Reinvestment Act (ARRA). The $137 million not funded by ARRA required the State to contribute approximately $27 million in matching funds. The State provided appropriations to contribute $955 thousand of the funds to meet the State's matching requirement for the first Capitalization grant. Additional matching funds were obtained through the issuance of revenue bonds.

The Program is administered by the Nebraska Department of Environmental Quality (Department). The Department's primary activities with regard to the Program include the making of loans for water pollution control 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.

EXIT CONFERENCE

An exit conference was held November 10, 2010, with the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program to discuss the results of our examination. Those in attendance for the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program were:

NAME	TITLE
Tom Lamberson	Deputy Director
Martie Guthrie	Budget Officer III
Pat Rice	Assistant Director, Water Quality Division
Mark B. Herman	Compliance Specialist
Kris Young	Accountant III
Amy Wilson	State Accounting, Fixed Assets
Curtis Youngman	State Accounting, Federal Grants Auditor
Rick Bay	Financial Assistance Section Supervisor
Steven McNulty	Environmental Engineer II, DHHS

SUMMARY OF COMMENTS

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

1. ***Financial Statement Errors:*** Errors were noted in the financial information prepared by the Agency's accounting staff and were noted on the trial balance prepared by the Agency. Trial balance amounts are carried forward to the financial statements.

2. ***Loan Testing:*** Documentation of loan files could be improved.

3. ***Reporting:*** Certain Federal reports were not filed with the EPA and control procedures over reports could be improved.

4. ***Allowable Administration Costs:*** Documentation of "potential SRF projects" and allowable administration costs could be improved.

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.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

COMMENTS AND RECOMMENDATIONS

1. Financial Statement Errors

Sound accounting practice and a good internal control plan require financial information and report disclosures to be complete and accurate. The accounting staff should have an understanding of all entries and supporting documentation for all numbers included on the financial statements. Sound accounting practice further requires correct calculations of data included in the financial information. Good internal controls also require that pre-audit procedures be in place to ensure expenditure coding is correct for fund, object account, and business unit.

Numerous errors were noted on the trial balances prepared by the Nebraska Department of Environmental Quality (Agency) and provided to us for the Clean Water State Revolving Fund (CWSRF). The trial balance financial information originally provided to us did not balance between the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. During our review of the financial data it was determined the main reason for this seems to be transactions in the State accounting system were not always recorded correctly and errors, when made, were not detected in a timely manner. For example, an error in recording a loan receivable of $974,179 was made in EnterpriseOne (E1-the State's accounting system) on May 25, 2010, which went undetected by the Agency. The loan receivable transaction recorded in E1 in error resulted in the CWSRF cash being overstated by $974,179 and the Drinking Water State Revolving Fund (DWSRF) being understated by $974,179. This undetected error, in large part, was the reason for the financial statements for the CWSRF not balancing.

The financial statements were adjusted for the errors noted.

Without strong internal control procedures to ensure financial information is complete, accurate, and in accordance with accounting standards, there is a risk of misstated financial statements.

> We recommend the Agency develop procedures to ensure transactions are recorded correctly in E1 and that accounting staff continue to work on understanding those financial transactions and understanding the worksheets used to prepare the accrual financial statement trial balances for the CWSRF.

Management Response: NDEQ Management recognizes the importance of accurate, timely and complete financial statement presentation.

Corrective Action Plan: We have taken steps to ensure reconciliations of general ledger accounts are done on a regular basis and documented with adequate supporting explanations. Additional financial staff are involved in the financial statement preparation and reconciliation of accounts to provide good internal control, cross training of personnel, and accurate statement presentation in the future.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Financial Statement Errors (Concluded)

A mid-year trial balance and financial statements will be prepared to aid in the accuracy of general ledger activities and help provide additional training to involved staff.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: February 1, 2011, for mid-year trial balance and financial statements. Reconciliations, cross training, internal controls is ongoing.

2. Loan Testing

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF); ARRA – Subrecipient Monitoring, Davis-Bacon Act, Procurement, and Suspension and Debarment

Grant Number & Year: All open grants, including CS-31000109 and 2W-97705101

Federal Grantor Agency: U.S. Environmental Protection Agency (EPA)

Criteria: 2 C.F.R. § 176.210(c) (April 23, 2009)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 C.F.R. § 176.210(d) (April 23, 2009) 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."

Title 131 NAC 8-004.03 states, "The annual principal and interest payment due from a loan recipient shall commence no later than one year after Initiation of Operation or no later than three years from the date of the loan contract, whichever occurs first."

A good internal control plan requires procedures be in place to:

- complete a loan award checklist for every project to ensure all administrative and mailing procedures have been completed for all loans awarded,
- complete a documented review of the monthly payroll certifications by the project engineer,
- complete a documented review of the specifications to ensure current wage rates, and

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Loan Testing (Continued)

- adequately monitor subrecipients' compliance with Federal requirements, including not doing business with suspended or debarred parties, and for American Recovery and Reinvestment Act (ARRA) funds, Buy-American procurement policies.

Condition: Documentation of loan files could be improved.

Questioned Costs: Unknown

Context: During testing it was noted:
- For 1 of 13 loans tested, the repayment of the loan did not commence according to regulations. This was noted in the prior audit. (State Rules and Regulations)
- For 5 of 18 loans tested, the loan award checklist was not on file. (Davis-Bacon Act)
- For 2 of 3 loans tested, the review of monthly payroll certifications by the project engineer was not documented.
- For 1 of 3 loans tested, the review of specifications for current wage rates was not documented. (Davis-Bacon Act)
- For 1 of 2 loans tested, there was no documentation to support subrecipient monitoring of suspended and debarred entities and Buy-American procurement policies. (Subrecipient Monitoring and Suspension/Debarment)
- For 15 of 15 loans tested, the loan agreement and disbursements did not contain the CFDA number and title, the award name and number, and for ARRA funding, the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC. (Subrecipient Monitoring)

Cause: Unknown

Effect: There is an increased potential for noncompliance with Agency Rules and Regulations as well as Federal grant compliance requirements.

Recommendation: We recommend the following:
- Procedures be improved to ensure the principal loan repayment begins in accordance with rules and regulations.
- A loan award checklist be completed for every loan that is awarded.
- Procedures be improved to ensure documentation is maintained to support a review of:
    - monthly payroll certifications,
    - current wage rate specifications,
    - subrecipient monitoring of suspended and debarred entities,
    - Buy-American procurement policies.
- The Agency separately identify to subrecipients the CFDA number and title, and the award name and number at the time of the subaward for all grants and additionally for ARRA funding at the time of disbursement of funds. In addition, for ARRA funding, identify the requirement for subrecipients to provide appropriate identification of ARRA funds in their SEFA and SF-SAC.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Loan Testing (Concluded)

Management Response: NDEQ Management recognizes the importance of a good internal control plan for loan processing and monitoring, to ensure necessary steps are completed, as well as compliance with Federal regulations are documented and fulfilled.

Corrective Action Plan: The Agency has begun modification of our internal control plan to implement the suggested recommendations. The Agency has reinstituted a comprehensive loan award checklist for every project. Subrecipient compliance with all Federal requirements will continue to be monitored and documented. Project engineers will initial their reviews of monthly payroll certifications and will document current wage rate compliance during the initial review of specifications and during on-site project inspection visits.

Due to the fluid nature of construction projects, the award name and number at the time of the subaward for all grants may need to be adjusted at the time of disbursement but will be recorded and documented accordingly.

Contact: Pat Rice, Water Quality Division Assistant Director
Rick Bay, Section Supervisor, Water Quality Financial Assistance Section

Anticipated Completion Date: January 1, 2011

3. Reporting

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF); ARRA – Reporting

Grant Number & Year: #2W-97705101, FFY2009

Federal Grantor Agency: U.S. Environmental Protection Agency (EPA)

Criteria: The American Recovery and Reinvestment Act (ARRA) grant agreement requires "an Interim Financial Status Report (FSR) is to be submitted to the appropriate EPA Grants Management Office 90 days after the anniversary of the project period start date." Also, a good internal control plan includes a process to ensure the data reported on Federal financial reports agree to financial records and that an adequate supervisory review is documented prior to submission of the report.

Condition: The Nebraska Department of Environmental Quality (Agency) did not submit a FSR for the ARRA grant for the period ended October 1, 2009. It was also noted the Agency did not reconcile amounts reported on the ARRA 1512 report to accounting records. It was further noted there was no documented supervisory review of the 1512 Report or the annual report submitted to the EPA.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Reporting (Continued)

Questioned Costs: Unknown

Context: Historically the EPA has not required FSR's for the capitalization grants to be submitted until the close of the grant period. However for the ARRA grant there is a requirement for an annual FSR. The annual ARRA report was not filed. Another requirement for the ARRA grant is that a 1512 Report is submitted quarterly. The quarterly reports were submitted; however, the amounts reported were not reconciled to the accounting records. The capitalization grants also require an annual report be filed with the EPA. These annual reports were submitted; however, there was no documented supervisory review of the report.

Cause: Unknown

Effect: There is potential noncompliance with Federal regulations and an increased risk of incorrect reporting.

Recommendation: We recommend the Agency improve reporting procedures to:

- submit annual Financial Status Reports for the ARRA grant,
- reconcile amounts reported on Federal reports, such as the 1512 Report, to accounting records, and
- document a supervisory review of all reports prior to submission.

Management Response: Management recognizes the importance of timely filing of required reports, as well as documented reconciliation of submitted numbers to accounting records.

Corrective Action Plan: Annual 10/1/09 and 10/1/10 Interim Federal Financial Reports (FFR) for the CWSRF ARRA grant have been filed with the EPA. The FFR filed has the signature of Martie Guthrie, Budget Officer III, who has verified the information reported reconciles to the State Accounting system.

The 1512 report information is reconciled to the State Accounting system and provided to programs for reporting by Martie Guthrie, Budget Officer III. The program inputs the information onto NE.gov. The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date. Any information that is questioned is reviewed and changed if necessary. The 1512 report will also be reviewed, and approval documented by Rick Bay, Section Supervisor, Water Quality Financial Assistance Section.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Reporting (Concluded)

APA Response: The Agency's response to our comment and recommendation noted above indicated: "The 1512 report information is reconciled to the State Accounting system and provided to programs for reporting by Martie Guthrie, Budget Officer III." They also noted: "The 1512 reporting statistics are specifically reviewed by State Accounting staff and the EPA prior to the final posting date." The Agency prepares its 1512 report from a separate record-keeping system specifically designed for the program and there was no reconciliation between the 1512 report prepared from this system and amounts recorded in the State Accounting System. We believe a reconciliation between the Agency's separate record-keeping system for the program and the State Accounting System would help ensure accurate 1512 reporting. Controls to ensure accurate 1512 reporting should be performed at the Agency before it is submitted to State Accounting and the EPA.

4. Allowable Administration Costs

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF); ARRA – Earmarking and Program Income

Grant Number & Year: All open grants, including CS-31000109

Federal Grantor Agency: U.S. Environmental Protection Agency (EPA)

Criteria: 40 CFR § 35.3120(g) (July 1, 2009) states, "(1) Money in the SRF may be used for the reasonable costs of administering the SRF, provided that the amount does not exceed 4 percent of all grant awards received by the SRF. Expenses of the SRF in excess of the amount permitted under this section must be paid for from sources outside the SRF. (2) Allowable administrative costs include all reasonable costs incurred for management of the SRF program and for management of projects receiving financial assistance from the SRF. Reasonable costs unique to the SRF, such as costs of servicing loans and issuing debt, SRF program start-up costs, financial management, and legal consulting fees, and reimbursement costs for support services from other State agencies are also allowable. (3) Unallowable administrative costs include the costs of administering the construction grant program under section 205(g), permit programs under sections 402 and 404 and Statewide wastewater management planning programs under section 208(b)(4)."

33 U.S.C. § 1383(g) (1998) states, "The State may provide financial assistance from its water pollution control revolving fund only… if such project is on the State's priority list under section 1296 of this title. Such assistance may be provided regardless of the rank of such project on such list."

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Allowable Administration Costs (Continued)

40 CFR § 35.3150(a) (July 1, 2009) states, "The State must prepare a plan identifying the intended uses of the funds in the SRF and describing how those uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subjected to public comment and review before being submitted to EPA. EPA must receive the IUP prior to the award of the capitalization grant." 40 CFR § 35.3150(b) (July 1, 2009) states "(i) The IUP must contain a list of publicly owned treatment works projects on the State's project priority list… to be constructed with SRF assistance… (ii) The IUP must also contain a list of nonpoint source and national estuary protection activities… that the State expects to fund from its SRF."

A good business plan would include written Agency policies to inform employees of how to code their time spent working on various projects and what are allowable costs for the SRF program, including when time should be charged to the SRF program.

Condition: No written guidance was available to support the definition of potential CWSRF projects and whether or not work done on potential CWSRF projects is an allowable use of the 4% administration funds.

Questioned Costs: Unknown

Context: The Agency prepares an annual Intended Use Plan (IUP) that includes a list of potential needs or projects to be considered for funding through the CWSRF program. To be eligible for SRF funding, a project must be listed on the IUP. During discussions with the Agency it was noted the IUP includes a list of potential needs or projects to be considered for funding through the CWSRF program. Discussions also indicated that engineering work is done on many projects prior to being funded by the CWSRF in order to evaluate the project. This cost is being charged to the CWSRF and paid with the 4% administration funds. Questions were raised whether or not these engineering reviews are an allowable use of the 4% administration funds. The Agency spoke with EPA staff and received email assurances that these costs were allowable as long as they were incurred on a "potential SRF project." However it appears there is no written guidance from the EPA to define a "potential SRF project" and the Clean Water Act only states it "may be used for the reasonable costs of administering the SRF." Without written guidance to support the use of SRF funds for potential SRF projects, auditors cannot determine whether or not these costs are appropriate for the administration of the SRF program.

Cause: Unknown

Effect: There is an increased risk of noncompliance with Federal grant compliance requirements.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Allowable Administration Costs (Concluded)

Recommendation: We recommend the Agency work with the EPA to provide formal, written guidance regarding what is a potential SRF project and that potential SRF projects are included as part of the administration of the SRF program. We also recommend the Agency develop written procedures for charging time to the SRF program.

> **Management Response:** The Nebraska Department of Environmental Quality (NDEQ) has and continues to use the 4% State Revolving Fund Administrative Fee in compliance with 40 CFR Part 35.3120(g). Additionally, in 2008, the NDEQ obtained written documentation for uses of the administrative fee from Sheila Platt in the EPA's Washington, D.C. Office. The documentation from Sheila Platt is used by NDEQ employees who prepare and review time as support for charging engineering reviews for potential SRF projects to the SRF program. This documentation was provided to the State Auditors.
>
> **Corrective Action Plan:** From the EPA's website, a potential State Revolving Fund project is defined as the capacity of potential recipients of loans from the State Revolving Fund, where capacity means the technical, financial, and managerial capabilities of a water system for proper long- term operations. The Agency has contacted the Director of EPA's Office of Wastewater Management to obtain written assurance that this is the definition of a "potential SRF projects." Per the Auditor's recommendation, the NDEQ will also obtain formal, written approval again from EPA that potential SRF projects are part of the administration of the SRF program. However, the Agency feels this is redundant, since the Agency has written documentation from Sheila Platt, who is in the EPA's Washington, D.C. office. This documentation was provided to the State Auditors.
>
> The Agency will comply with the State Auditor's recommendation to develop written procedures for charging time to the SRF program. However, there have not been any problems resulting from following the current system for establishing and managing time categories when requested by program administrators.
>
> **Contact:** Pat Rice, Water Quality Division Assistant Director
>
> **Anticipated Completion Date:** March 31, 2011

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN 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 - Clean Water State Revolving Fund Program (Program), as of and for the year ended June 30, 2010, which collectively comprise the Program's basic financial statements as listed in the Table of Contents. These basic 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 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 our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Department of Environmental Quality - Clean 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 - Clean 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, 2010, and its changes in financial position 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 - Clean Water State Revolving Fund Program, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010, on our consideration of the Nebraska Department of Environmental Quality - Clean 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. 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 November 10, 2010, on our consideration of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance with certain provisions of laws, regulations, and grants.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Signed Original on File

November 10, 2010

Don Dunlap, CPA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Department) - Clean 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, 2010. This analysis has been prepared by management of the Department, and is intended to be read in conjunction with the Program's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 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 additional information that is essential to a full understanding of the data provided in the financial statements.

AMERICAN RECOVERY AND REINVESTMENT FUNDS

Nebraska was awarded $20,045,000 in American Recovery and Reinvestment Act (ARRA) funds for wastewater treatment facility improvements, which are known as Clean Water projects. These funds are administered by the Department. The purpose of these funds is to improve the wastewater infrastructure in communities that have been identified as having significant needs.

The ARRA funds supplement the State's Clean Water State Revolving Fund. The CWSRF provides low-interest loans to communities for construction of wastewater treatment facilities and sanitary sewer collection systems, to alleviate public health and environmental problems. The Department's CWSRF loan program annually surveys the wastewater needs of communities across the State, and develops an Intended Use Plan that prioritizes those needs and is the basis for allocating the loans.

The $20 million in ARRA funds was blended with approximately $34 million of Nebraska's existing CWSRF loan funds. Prior to the addition of ARRA funds, the 2009 CWSRF Intended Use Plan had targeted six communities to receive low-interest loans in 2009, with numerous others communities awaiting future funding. The addition of the ARRA funds expanded this list to 16 communities that received a combination of low-interest loans and principal forgiveness. These communities were offered a package including a 50 percent low interest loan from existing State CWSRF funding, a 25 percent no-interest loan of ARRA funds, and 25 percent principal forgiveness of ARRA funds. ARRA requires the State to use at least 50% of the ARRA funds supplied by this grant to provide additional subsidization which the State elected to do in the form of principal forgiveness.

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Assets

For the fiscal year ended June 30, 2010, net assets of the Program increased by 7%. Revenues decreased 4% and expenses increased 546%. The 7% increase in current assets was primarily due to several loan payoffs and an increase in accounts receivable due to new ARRA loans. The increase in expenses was due to stimulus grant payments made on additional ARRA loans.

NET ASSETS

	2010	2009	% Change
Current Assets	$ 61,773,245	$ 55,023,634	12%
Noncurrent Assets	148,211,958	140,617,288	5%
Total Assets	209,985,203	195,640,922	7%
Net Assets:			
Unrestricted	209,985,203	195,640,922	7%
Total Net Assets	$ 209,985,203	$ 195,640,922	7%
Loan Fee Administration	$ 1,528,624	$ 1,503,314	2%
Interest	6,207,685	6,575,360	(6%)
Total Operating Revenue	7,736,309	8,078,674	(4%)
Administration	1,910,226	1,127,317	69%
Bond Expenses	8,165	10,588	(23%)
ARRA Principal Forgiveness	5,435,631	-	100%
Total Operating Expenses	7,354,022	1,137,905	546%
Operating Income	382,287	6,940,769	(94%)
Capital Federal Grant	3,392,691	3,415,700	(1%)
Capital Contributions ARRA Grant	10,569,303	-	100%
Change in Net Assets	14,344,281	10,356,469	39%
Beginning Net Assets July 1	195,640,922	185,284,453	6%
Ending Net Assets June 30	$ 209,985,203	$ 195,640,922	7%

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline and Nebraska's economy has and will likely continue to impact the future net revenues of the State. Tax revenues continue to fall short of projections. How the Program's revenue will be affected by the current national economic decline is unknown. For the fiscal year ended June 30, 2010, the Program received $10.5 million in ARRA funds and about half of those funds were provided as principal forgiveness. The ARRA funding does not require a State match.

Having higher rates of loan repayment and lower interest rates on new loans may contribute to lower revenues. A larger State investment pool balance and more total dollars of loans may contribute to offsetting lower revenues.

DEBT ADMINISTRATION

Short -Term Debt

The Clean Water State Revolving Fund Program had debt activity during the fiscal year that was short-term in nature resulting from a bond issue. The issue was for $700,000, which was repaid within the same fiscal year.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

BALANCE SHEET

JUNE 30, 2010

		Enterprise Fund
ASSETS		
CURRENT ASSETS:		
Cash in State Treasury (Note 2)	$	49,818,070
Administration Fees Receivable		2,032
Loan Interest Receivable		4,671
Interest Receivable		164,788
Loans Receivable (Note 3)		11,783,684
TOTAL CURRENT ASSETS		61,773,245
NON-CURRENT ASSETS		
Loans Receivable (Note 3)		148,211,958
TOTAL NON-CURRENT ASSETS		148,211,958
TOTAL ASSETS	$	209,985,203
LIABILITIES		
TOTAL LIABILITIES	$	-
NET ASSETS		
Unrestricted		209,985,203
TOTAL NET ASSETS		209,985,203
TOTAL LIABILITIES AND NET ASSETS	$	209,985,203

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2010

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 6)	$ 1,528,624
Interest on Loans	4,893,879
Interest on Fund Balance - State Operating Investment Pool (Note 7)	1,311,324
Interest on Fund Balance - Trustee	2,482
TOTAL OPERATING REVENUES	7,736,309
OPERATING EXPENSES:	
Administrative Costs From Fees	787,355
4% Administrative Costs From Grants	114,828
Small Town Grants (Note 8)	753,199
Facility Planning Grants	254,844
Interest Expense on Bonds Payable	8,165
Principal Forgiveness ARRA (Note 8)	5,435,631
TOTAL OPERATING EXPENSES	7,354,022
OPERATING INCOME	382,287
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS	3,392,691
CAPITAL CONTRIBUTIONS - ARRA FEDERAL GRANTS	10,569,303
CHANGE IN NET ASSETS	14,344,281
TOTAL NET ASSETS, BEGINNING OF YEAR	195,640,922
TOTAL NET ASSETS, END OF YEAR	$ 209,985,203

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	$ 26,552,700
Interest on Investments	1,263,729
Interest on Fund Balance - Trustee	2,482
Payments for Administration	(902,183)
Payments for Small Town Grants	(753,199)
Payments for Facility Planning Grants	(254,844)
ARRA Principal Forgiveness	(5,435,631)
Payments to Borrowers	(21,834,782)
Interest on Bond	(8,165)
Receipts From Bond Issue	700,000
Repayment of Bond	(700,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(1,369,893)
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	3,392,691
Funds Received From the Environmental Protection Agency-ARRA Funds	10,569,303
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES	13,961,994
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,225,969
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 49,818,070
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	$ 382,287
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(2,193,023)
(Increase)/Decrease in Interest Receivable	(47,596)
(Increase)/Decrease in Administration Fees Receivable	109,845
(Increase)/Decrease in Loan Interest Receivable	378,594
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (1,369,893)

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Department) - Clean 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).

B. Reporting Entity

The Clean Water State Revolving Fund Program is a program within the Department and is established under and governed by the Clean Water Act of the Federal Government and by laws 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 also considered all potential component units of the Program for which it is financially accountable, and other organizations which are fiscally dependent on the Program's management, or the significance of their relationship with the Program's management 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 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 - Clean 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. It includes the following funds as identified in the Wastewater Treatment Facilities Construction Assistance Act:

- Clean Water Facilities Funds – General Fund 10000, Federal Funds 48412 and 48413, and Bond Funds 68470, 68471, 68472, and 68473.

- Administration Funds – Cash Funds 28460, 28461, and 28462.

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

The activity of these ten 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 Department have decided that the determination of the 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 because the major source of revenue is Federal assistance.

D. Measurement Focus, Basis of Accounting

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

1. Summary of Significant Accounting Policies (Continued)

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, 2010, 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.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Clean Water Program is funded, on average, 83.33% from Federal capitalization grants and 16.67% from State matching funds, other than 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 5.25% and the terms are between 5 to 20 years. The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2010, which is collectible in fiscal year 2011.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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 was a provision for the Program to intercept State aid to a community in default of its loan.

G. Use of Estimates

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

2. Cash in State Treasury

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, 2010. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Clean Water State Revolving Fund Program were designated for investment during fiscal year 2010. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

As of June 30, 2010, the Program had 159 outstanding loans with communities that totaled $159,995,642. The outstanding balances of the ten communities with the largest loan balances, which represents 56% of the total loans, were as follows:

City	Outstanding Balance
Omaha CSO #1	$ 17,029,630
North Platte	14,849,317
Omaha	14,695,027
SID #1 Gosper County	11,384,659
Lake Wanahoo	7,783,080
Gibbon	5,741,618

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. **Loans Receivable** (Concluded)

City	Outstanding Balance
Scottsbluff	5,495,196
McCook	4,684,744
Sidney	4,253,592
West Point	4,210,416
Total	$ 90,127,279

4. **Bonds Payable**

The EPA requires the Program to provide 20% matching funds for each capitalization grant under Sec. 602(b)(2) of the Federal Clean Water Act. During the fiscal year, the Program issued Series 2009B short-term revenue bonds to meet this requirement. Bond Series 2009B was retired during the year ended June 30, 2010. Bonds Payable activity for fiscal year 2010 was:

	Beginning Balance	Additions	Retirement	Ending Balance
Bonds Payable	$ -	$ 700,000	$ 700,000	$ -

5. **Net Assets**

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the capitalization grants awarded, drawn, and the remaining balance as of June 30, 2010. 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, 2010, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1989	$ 4,773,100	$ 4,773,100	$ -
1990	4,964,560	4,964,560	-
1991	10,821,580	10,821,580	-
1992	9,938,500	9,938,500	-
1993	9,830,300	9,830,300	-
1994	6,061,600	6,061,600	-
1995	6,263,600	6,263,600	-
1996	10,319,661	10,319,661	-
1997	3,119,900	3,119,900	-

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Net Assets (Concluded)

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1998	7,019,996	7,019,996	-
1999	6,857,600	6,857,600	-
2000	6,834,000	6,834,000	-
2001	6,797,400	6,797,400	-
2002	6,855,000	6,855,000	-
2003	7,069,900	7,069,900	-
2004	6,747,100	6,747,100	-
2005	5,467,300	5,467,300	-
2006	4,424,300	4,424,300	-
2007	5,429,600	5,429,600	-
2008	3,415,700	3,415,700	-
2009 - ARRA	20,045,000	10,569,303	9,475,697
2009	3,415,700	3,392,691	23,009
TOTAL	$ 156,471,397	$ 146,972,691	$ 9,498,706

The 2009 grant was delayed and was not awarded until September 10, 2009, after the end of State fiscal year 2009. Although the 2009 grant was delayed, the grant award allowed the Agency to charge expenditures for projects to the grant effective October 1, 2008.

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

Contributed Capital July 1, 2009	$ 133,965,697
Contributed During the Year – Funds From EPA	3,392,691
Funds from ARRA	10,569,303
Contributed Capital June 30, 2010	$ 147,927,691

Also included in the Contributed Capital is a total of all general funds received by the Program from the Nebraska State Legislature. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed $300,000 and $655,000 in the fiscal years ended June 30, 1989, and 1990, respectively.

6. 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 ranged from .5% to 1% per annum and was collected semi-annually.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Interest on Fund Balance – State Operating 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.

8. Small Town Grants and ARRA Principal Forgiveness

Small Town Grants are made available to communities that have a population of 10,000 people or less. The total maximum of Small Town Grants for State fiscal year 2010 was $850,000. Under the 2010 Intended Use Plan, the maximum is $250,000 per project concurrent with a Program loan. Loan Fees Administration is used to fund these grants.

ARRA provided funding in the form of principal forgiveness for Clean Water loans. ARRA requires states to use at least 50% of the funds supplied by this grant to provide additional subsidization in the form of principal forgiveness.

9. 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 principal operating revenue of the Program is the Loan Fees Administration. Interest revenues are also operating revenues since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and small town grants. Interest expenses are also operating expenses since making loans is the primary purpose of the Program.

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

For the fiscal year ended June 30, 2010, employees contributed $24,801 and the Department contributed $38,690. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

The State of Nebraska Comprehensive Annual Report (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.state.ne.us.

11. **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. 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:

11. Contingencies and Commitments (Concluded)

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 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 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 judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. Subsequent Events

The City of Omaha informed the Department of Environmental Quality after the audit was completed, they would be paying off three Clean Water loans. The loan payment was largely to satisfy principal, interest, and administration fees receivable as referenced in footnote three. The following is a detail of the payment to be made on November 17, 2010.

Project #7079

Interest	$ 48,572.97
Principal	3,834,708.01
Administration Fee	16,190.99
Total Project	3,899,471.97

Project #7319

Interest	251,660.09
Principal	17,029,630.48
Administration Fee	71,902.88
Total Project	17,353,193.45

Project #7375

Interest	179,192.51
Principal	10,610,082.71
Administration Fee	44,798.13
Total Project	10,834,073.35
Total Payment	$ 32,086,738.77

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN 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 - Clean Water State Revolving Fund Program as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. The report was modified to emphasize the financial statements present only the funds of the Nebraska Department of Environmental Quality - Clean 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

In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting (internal control) 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 - Clean 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 - Clean Water State Revolving Fund Program's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be 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. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency that is described in the Comments Section of the report: Comment Number 1 (Financial Statement Errors). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - Clean 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 additional items that we reported to management of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program in the Comments Section of this report as Comment Number 2 (Loan Testing), Comment Number 3 (Reporting), and Comment Number 4 (Allowable Administration Costs).

The Nebraska Department of Environmental Quality - Clean 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 - Clean Water State Revolving Fund Program's response and accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program declined to respond.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality - Clean 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

November 10, 2010

Don Dunlap, CPA
Assistant Deputy Auditor

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY – CLEAN 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

We have audited the compliance of the Nebraska Department of Environmental Quality – Clean 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, 2010. We audited the Nebraska Department of Environmental Quality - Clean 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 - Clean Water State Revolving Fund Program's management. Our responsibility is to express an opinion on the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance based on our audit.

Compliance

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 - Clean 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 - Clean Water State Revolving Fund Program's compliance with those requirements.

In our opinion, the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program complied, in all material respects, with the requirements referred to above that are applicable to the Program for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

The management of the Nebraska Department of Environmental Quality - Clean 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. In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over compliance with requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, 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 Department'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. However, we identified certain defiencies in internal control over compliance that we consider to be significant deficiencies as described in the Comments Section of this report as Comment Number 2 (Loan Testing), Comment Number 3 (Reporting), and Comment Number 4 (Allowable Administration Costs). A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Nebraska Department of Environmental Quality - Clean 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 - Clean Water State Revolving Fund Program's response and accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program declined to respond.

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

November 10, 2010

Don Dunlap CPA
Assistant Deputy Auditor