

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

JULY 1, 2010 THROUGH JUNE 30, 2011

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on April 10, 2012

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Comments Section	
Exit Conference	2
Summary of Comments	3
Comments and Recommendations	4 - 11
Financial Section	
Independent Auditors' Report	12 - 13
Management's Discussion and Analysis	14 - 16
Fund Financial Statements:	
Balance Sheet	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Notes to the Financial Statements	20 - 30
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31 - 32
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 <i>U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs</i>	33 - 35

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, 2011, the EPA had awarded \$166 million in Capitalization grants to the State. Of the \$166 million awarded, approximately \$20 million was funded by the American Recovery and Reinvestment Act (ARRA). The \$146 million not funded by ARRA required the State to contribute approximately \$29 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 (Agency). The Agency'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 Agency and the Program's Intended Use Plan.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

An exit conference was held March 1, 2012, 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:

<u>NAME</u>	<u>TITLE</u>
Tom Lamberson	Deputy Director
Martie Guthrie	Budget Officer III
Shelley Schneider	Division Administrator
Mark B. Herman	Compliance Specialist
Kris Young	Accountant
Amy Wilson	State Accounting
Curtis Youngman	State Accounting
Chin Chew	Department of Health and Human Services - Engineering Section Supervisor
Marty Link	Acting Water Quality Division Administrator
Mary Brady	Federal Aid Administrator II
Donna Garden	Financial Assistance Section Supervisor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

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. **Cash Management:** The Agency withdrew Federal funds to reimburse expenses prior to incurring those expenses.
2. **Federal Reporting:** Various problems and lack of internal controls were identified related to Federal reporting.
3. **Loan Testing:** The Agency was not in compliance with various Federal regulations.

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. Where no response has been included, the Agency declined to respond. 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

1. **Cash Management – [Note: The following comment was included in both the Drinking and Clean Water SRF fiscal year end June 30, 2011, audit reports due to the cross cutting nature of the finding]**

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund and ARRA CWSRF; CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Fund and ARRA DWSRF – Cash Management

Grant Number & Year: All open grants including #2W-97705101, FFY 2009 (ARRA); #CS-31000110, FFY 2010; #2F-97705601, FFY 2009 (ARRA); #FS-99780507, FFY 2007; #FS-99780509, FFY 2009; and #FS-9978510, FFY 2010

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

Criteria: 31 CFR § 205.12(b)(5) (July 2010) states “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

Per the EPA’s Performance Evaluation Report dated September 22, 2011, “If a draw error of a substantial sum (i.e., \$500K) is made, the NDEQ [Agency] should return the funds rather than use the book entry adjustment method, regardless of the limitations in the ASAP system for displaying available balances.”

Good internal controls and sound business practices require an adequate accounting of funds including tracking the amount spent from each grant, reconciling total draws with total expenditures, and maintaining documentation for figures used to support Federal draws were expended.

Condition: The Agency drew down \$2,808,754 in Federal funds for the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) on April 7, 2011. The Agency had not incurred expenses to warrant this Federal draw. In addition, during testing the Agency did not initially provide the final copy of the draw spreadsheet used to track the excess funds to the Auditor of Public Accounts (APA).

Questioned Costs: None

Context: On April 7, 2011, the Agency drew down \$3,595,223 in Federal funds from the Federal Automated Standard Application for Payments (ASAP) System for the CWSRF and DWSRF programs in anticipation of a Federal government shutdown. Of this amount, \$786,469 could be paid out right away after invoices had been verified. The remaining \$2,808,754 was drawn in excess and should have been returned to the EPA within 30 days. The Agency reported they were not aware of a legitimate process to return these funds, and elected to keep the funds to use on future expenditures. The EPA performs biannual reviews of the State’s Clean and Drinking Water Revolving Funds. The EPA was aware of this large draw and reviewed it and incorporated this in their Performance Evaluation Report.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Cash Management – [Note: The following comment was included in both the Drinking and Clean Water SRF fiscal year end June 30, 2011, audit reports due to the cross cutting nature of the finding]** (Continued)

In order to track how the early draws were paid, the Agency developed a spreadsheet where expenditures were grouped by grant and tracked until the early draw had been completely paid. Per the spreadsheet, the last expenditure paid from the early CWSRF draw was on June 23, 2011, and the last expenditure paid from the early DWSRF draw was on June 27, 2011.

Based on the APA's review of the spreadsheet, we noted:

- There were variances between the original spreadsheet we received and the final one received from the EPA. Variances were not significant.
- Documentation was not readily available to support the expenditure and adjustment amounts on the spreadsheet. The APA was able to observe in the State's accounting system that these Federal funds were eventually disbursed; however, the Agency was unable to easily recreate some of the expenditure and adjustment figures included in their spreadsheet.
- The total draws did not agree to total expenditures on the spreadsheet. Expenditures exceeded cash draws by \$81,091 and the Agency was not able to explain these excess expenditures.

Cause: The Agency was not aware of a legitimate process to return excess funds.

Effect: The Agency was not in compliance with Federal regulations. Federal cash draws for funds not specifically requested by a political subdivision increase the risk Federal funds will be improperly used.

Recommendation: We recommend the Agency implement procedures to ensure that funds are only drawn on a reimbursement basis. We further recommend the Agency implement procedures to ensure that if excess funds of \$500,000 or more are drawn that they properly return them to the Federal government within 30 days.

Management Response: The situation described was an atypical one, in which the Agency reacted to legitimate reimbursement requests from SRF loan recipients. The problem occurred due to drawing Federal funds for reimbursements that ultimately were paid as recycled principal. EPA ASAP instructions did not provide the option of returning funds within 30 days if they were drawn incorrectly. The Agency used excess funds drawn as quickly as possible against other Federal draw needs within the Agency, per instructions within the EPA ASAP program.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Cash Management – [Note: The following comment was included in both the Drinking and Clean Water SRF fiscal year end June 30, 2011, audit reports due to the cross cutting nature of the finding]** (Concluded)

Corrective Action: The Agency draws funds on a reimbursement basis the vast majority of time. We are now aware that if funds are drawn in error, they may be returned to the EPA within 30 days without affecting the grant balance. The Agency has also added the subledger (loan number) to receipts within the State Accounting System when draws are made, which will make it easier to match draw requests to specific expenditure payments.

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

2. **Federal Reporting**

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

Grant Number & Year: #CS-31000105, FFY 2005; #2W-97705101, FFY 2009 (ARRA)

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: The Federal Financial Report (FFR), which replaced the Financial Status Report, requires total Federal program income earned to be reported.

OMB Circular A-133 § 315 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings ... The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit’s schedule of findings and questioned costs relative to Federal awards ... When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”

A good internal control plan requires:

- Federal financial reports are reviewed by management level personnel not involved in report preparation and the review be adequately documented,
- adequate documentation be maintained to support figures reported, and
- a process be in place to ensure data reported agrees to EnterpriseOne, the State’s accounting system.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Federal Reporting (Continued)

Condition: During testing it was noted:

- Two of two FFRs tested were not complete and accurate as program income was not reported.
- One of two FFRs had incorrectly overstated match expenditures by \$500,000. Even though match expenditures were overstated, the Agency still met their match requirement.
- The Agency did not have documentation to support FFRs submitted during the fiscal year ended June 30, 2011, were prepared and approved by separate individuals.
- The Agency did not have documentation to support the figures reported on the March 2011 ARRA 1512 report.
- The Agency had no documentation to support that EnterpriseOne data was compared to the Federal system used to generate the data submitted on the March 2011 ARRA 1512 report. This was noted in the prior audit.
- There was no documented supervisory review of the 1512 report prior to the report being submitted to Recovery.gov. This was noted in the prior audit.

The summary schedule of prior audit findings in the Nebraska Statewide Single Audit Report for Finding #10-84-04 states the corrective action is complete. The Agency's corrective action was to implement additional reviews and approvals prior to submitting reports. The APA could not observe any documentation to support the reviews or approvals were performed. As of June 30, 2011, this action was not complete.

Questioned Costs: Unknown

Context: During testing it was noted:

- The Agency is required to submit FFRs for non-ARRA grants after the close of the grant period and interim annual FFRs for the ARRA grant. For both the ARRA and FFY 2005 grant, the program income section was left blank on the FFR. The Agency is working with the EPA to address this.
- The required match for Grant CS-31000105 was \$1,093,460. The Agency reported match of \$2,134,334 but only had actually spent \$1,634,334 on matching. Thus, the Agency had adequately met its matching requirement but misreported the amount spent as match.
- The Agency enters expenditure data into an EPA system as well as EnterpriseOne, the State's Accounting System. The Agency uses the EPA system to report financial information on the 1512 report, however, the Agency is unable to generate time specific reports from this system and thus they were not able to recreate the reports used to support the figures on the March 2011 ARRA 1512 report, nor did they maintain supporting documentation.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Federal Reporting (Concluded)

Cause: During testing it was noted:

- The Agency was working with the EPA to determine how they should report program income on the FFR. An EPA approved methodology had not been determined as of June 30, 2011.
- The Agency did not have documentation to support various reviews, approvals, and reconciliations between Federal and State information systems.

Effect: The Agency was not in compliance with Federal requirements of the ARRA and FFY 2005 grant agreements. In addition, without adequate controls in place to ensure compliance is met there is an increased risk of inaccurate reporting.

Recommendation: We recommend the Agency continue to work with the EPA to develop an approved methodology for calculating and reporting program income. We also recommend the Agency implement procedures to ensure reports submitted to the Federal government have a documented supervisory review. We further recommend the Agency maintain the documentation to support the figures reported.

Management Response: On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with the APA. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were missed.

Corrective Action: Documentation will be saved that indicates supervisory approval for the submittal of the 1512 report and the corresponding reconciliation of the CBR Federal information system to the State Accounting System for the same time period. On February 20, 2012, a program income computation methodology was agreed upon with Region 7 EPA. This was shared with the APA. FFR reports prepared subsequent to the audit period have adequate documentation attached, as well as approval signatures on the face of the reports.

Contact: Martie Guthrie, Budget Officer III and Donna Garden, Financial Assistance Section Supervisor

Anticipated Completion Date: April 14, 2012

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing

Program: CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Fund (CWSRF) and ARRA CWSRF – Cash Management/Subrecipient Monitoring

Grant Number & Year: All open grants, including #CS-31000110, FFY 2010; #2W-97705101, FFY 2009 (ARRA)

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

Criteria: OMB Circular A-133 § 400(d) states, “a pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year ...”

2 CFR § 176.210(c) (January 1, 2011) states, “Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.”

2 CFR § 176.210(d) (January 1, 2011) states, “Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office.”

31 CFR § 205.12(b)(5) (July 1, 2010) states, “Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.”

OMB Circular A-133 § 315 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings ... The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit’s schedule of findings and questioned costs relative to Federal awards ... When audit findings were fully corrected the summary schedule need only list the audit findings and state that corrective action was taken. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”

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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing (Continued)

Condition: During State fiscal year 2011, the Agency paid out \$15,875,479 to 31 political subdivisions. During testing the APA selected 4 loans to political subdivisions who received a total of \$5,939,306 during the State fiscal year. During testing it was noted:

- For all four loans tested, the loan agreement did not contain one or all of the following: the Federal award name, Federal award number, or CFDA Title. In addition, if the loan was ARRA funded, the loan did not include the requirement for the political subdivision to provide appropriate identification of ARRA funds in their Schedule of Expenditures of Federal Awards (SEFA) and their SF-SAC (Data Collection Form). This was noted in the prior audit.
- For three of the four loans tested, the loan award checklist was not on file. This was noted in the prior audit.
- For all three loans tested, which received ARRA funds, the Agency did not notify the subrecipient of the award number of the funds disbursed during the fiscal year.
- For two of six payments the Agency did not pay the political subdivision before drawing the Federal funds. The two payments identified were paid using the early cash draw identified in Finding #11-84-01 in the Nebraska Statewide Single Audit Report and Comment Number 1 in this report.

The summary schedule of prior audit findings in the Nebraska Statewide Single Audit Report for Finding #10-84-03 states the corrective action is complete. The Agency's corrective action was to reinstitute their loan checklist to ensure compliance requirements were met. The corrective action also included adding more items to review during their engineer's onsite checklist. While the Agency did address some of the items reported last year, there were other items that had not been adequately addressed as of June 30, 2011.

Questioned Costs: None

Context: During testing it was noted:

- The Agency sent out a letter to all political subdivisions, after the political subdivision's fiscal year end, which included the CFDA number, and whether ARRA funded. However, the letter did not include the Federal grant award number.
- In response to a potential Federal Government shutdown, the Agency requested funds in advance of payment to the political subdivisions. This is related to Finding #11-84-01 in the Nebraska Statewide Single Audit Report and Comment Number 1 in this report. One payment was made on April 26, 2011, for \$563,607 and the other payment was made on June 27, 2011, for \$34,732.

Cause: During testing it was noted:

- The Agency started using a new template for loan contracts as of February 1, 2012, that now includes the CFDA number and title, as well as, the Federal grant award name and number.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Loan Testing (Concluded)

- The Agency began using the loan checklist during the fiscal year. During testing the APA observed the checklist in a loan file for a loan dated January 17, 2011.
- The Agency was not aware of a process to return excess funds.

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:

- The Agency continue to use their updated loan agreement, which includes CFDA title and number, as well as, grant award name and number.
- A loan award checklist be completed for every loan that is awarded.
- The Agency incorporate the Federal grant award number in their annual correspondence with political subdivisions.
- The Agency only request Federal funds after they have made payment to political subdivisions.

Management Response: The Agency 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. Due to the Supervisor of the Financial Assistance Section retiring, and the position not being filled until nearly a year later, some processes that had been planned to be implemented after the prior year audit were delayed.

Corrective Action: As of February 1, 2012, the Agency adopted and is using a new template for loan contracts that includes the CFDA number and title, as well as the Federal grant award name and number. The Agency will use the standard grant award number without the fiscal year extension, so that contracts would be inclusive of any currently open or future grants available for payment of reimbursement requests.

The Agency will continue to send out a yearly letter to remind political subdivisions of the Single Audit Act. The letter will provide the amount of Federal and State loan funds, loan forgiveness, and ARRA funds. The letter will contain CFDA name and number and the Federal grant award name and number.

The Agency will continue to include in the file of every loan awarded, the loan award checklist to ensure all administrative and mailing procedures have been completed for all loans awarded.

Contact: Pat Rice, Assistant Director, Water Division; Donna Garden, Supervisor Financial Assistance Section

Anticipated Completion Date: 2/1/12 – for new contract templates; 10/1/12 – for annual Single Audit Act letter to subdivisions



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2011, 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, 2011, 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, 2011, 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 April 2, 2012, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, we have also issued our report dated April 2, 2012, 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

April 2, 2012

Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) - 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, 2011. This analysis has been prepared by management of the Agency, and is intended to be read in conjunction with the Program's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 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 Agency. 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 (CWSRF). 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 Agency'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 waiting for future funding. The addition of the ARRA funds expanded this

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

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 percent 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, 2011, net assets of the Program increased by 8% - primarily due to a 54% increase in cash with the State Treasury. Revenues decreased by less than 1% and expenses increased by 1%. A significant payoff by the City of Omaha of its CWSRF loans totaled \$31,474,421, and while adding to cash, decreased accounts receivable. The net effect to accounts receivable was an 11% decrease in current accounts receivable, and a 6% decrease to long-term accounts receivable.

	NET ASSETS		
	2011	2010	% Change
Current Assets	\$ 87,568,922	\$ 61,773,245	42%
Noncurrent Assets	138,902,591	148,211,958	(6%)
Total Assets	226,471,513	209,985,203	8%
Current Liabilities	35,775	-	100%
Noncurrent Liabilities	113,063	-	100%
Total Liabilities	148,838	-	100%
Net Assets:			
Unrestricted	226,322,675	209,985,203	8%
Total Net Assets	\$ 226,322,675	\$ 209,985,203	8%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

CHANGES IN NET ASSETS			
	2011	2010	%Change
Loan Fee Administration	\$ 1,267,361	\$ 1,528,624	(17%)
Interest	6,442,076	6,207,685	4%
Fines, Forfeits, and Penalties	496	-	100%
Total Operating Revenue	7,709,933	7,736,309	(.3%)
Administration	1,635,815	1,910,226	(14%)
Bond Expenses	12,001	8,165	47%
ARRA Principal Forgiveness	4,573,879	5,435,631	(16%)
Non-ARRA Principal Forgiveness	1,178,292	-	100%
Total Operating Expenses	7,399,987	7,354,022	1%
Operating Income	309,946	382,287	(19%)
Capital Federal Grant	6,605,026	3,392,691	95%
Capital Contributions ARRA Grant	9,422,500	10,569,303	(11%)
Change in Net Assets	16,337,472	14,344,281	14%
Beginning Net Assets July 1	209,985,203	195,640,922	7%
Ending Net Assets June 30	\$ 226,322,675	\$ 209,985,203	8%

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline in recent years; however, net State tax revenues for fiscal year 2011 finished the year 4% above projections. The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains to be a challenge for communities in funding major capital projects. Declining population bases make it difficult to draw the amount of user fees needed to fund infrastructure requirements. For the fiscal year ended June 30, 2011, the Program received \$9.4 million in ARRA funds and about half of those funds were provided as principal forgiveness to communities. The ARRA funding does not require a State match.

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 \$2,085,000, which was repaid within the same fiscal year.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
 JUNE 30, 2011

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash in State Treasury (Note 2)	\$ 76,912,558
Administration Fees Receivable	292
Loan Interest Receivable	877
Interest Receivable	157,804
Loans Receivable (Note 3)	10,497,391
TOTAL CURRENT ASSETS	<u>87,568,922</u>
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	138,902,591
TOTAL NON-CURRENT ASSETS	<u>138,902,591</u>
TOTAL ASSETS	<u><u>\$ 226,471,513</u></u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	\$ 27,265
Compensated Absences (Note 5)	8,510
TOTAL CURRENT LIABILITIES	<u>35,775</u>
NON-CURRENT LIABILITIES	
Compensated Absences (Note 5)	113,063
TOTAL NON-CURRENT LIABILITIES	<u>113,063</u>
TOTAL LIABILITIES	<u>148,838</u>
NET ASSETS	
Unrestricted	226,322,675
TOTAL NET ASSETS	<u>226,322,675</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 226,471,513</u></u>

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, 2011

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	\$ 1,267,361
Interest on Loans	4,420,602
Interest on Fund Balance - State Operating Investment Pool (Note 8)	2,021,474
Fines, Forfeits, and Penalties	496
TOTAL OPERATING REVENUES	<u>7,709,933</u>
OPERATING EXPENSES:	
Administrative Costs From Fees	1,031,180
4% Administrative Costs From Grants	170,230
Small Town Grants (Note 9)	376,604
Facility Planning Grants	57,801
Interest Expense on Bonds Payable	12,001
Principal Forgiveness ARRA (Note 9)	4,573,879
Principal Forgiveness Non-ARRA	1,178,292
TOTAL OPERATING EXPENSES	<u>7,399,987</u>
OPERATING INCOME	309,946
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS	6,605,026
CAPITAL CONTRIBUTIONS - ARRA FEDERAL GRANTS	<u>9,422,500</u>
CHANGE IN NET ASSETS	16,337,472
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>209,985,203</u>
TOTAL NET ASSETS, END OF YEAR	<u><u>\$ 226,322,675</u></u>

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, 2011

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 48,187,327
Interest on Investments	2,028,459
Payments for Administration	(1,052,572)
Payments for Small Town Grants	(376,604)
Payments for Facility Planning Grants	(57,801)
Principal Forgiveness	(5,752,171)
Payments to Borrowers	(31,897,675)
Interest on Bond	(12,001)
Receipts From Bond Issue	2,085,000
Repayment of Bond	(2,085,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,066,962
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	6,605,026
Funds Received From the Environmental Protection Agency-ARRA Funds	9,422,500
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES	16,027,526
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	49,818,070
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 76,912,558
RECONCILIATION OF OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 309,946
ADJUSTMENTS TO RECONCILE OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Decrease in Loans Receivable	10,595,660
Decrease in Interest Receivable	6,984
Decrease in Administration Fees Receivable	1,740
Decrease in Loan Interest Receivable	3,794
Increase in Compensated Absences	121,573
Increase in Accounts Payable	27,265
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 11,066,962

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Agency) - 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 Agency and is established under and governed by the Clean Water Act of the Federal Government and by laws of the State of Nebraska. The Agency is a State agency established under and governed by the laws of the State of Nebraska. As such, the Agency is exempt from State and Federal income taxes. The Program's management has also considered all potential component units 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 Agency to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Agency.

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality - 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 purpose of carrying on activities or attaining objectives in accordance with specific

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2011, 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, 2011, which is collectible in fiscal year 2012.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

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.

H. Compensated Absences

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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, 2011. 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 2011. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

As of June 30, 2011, the Program had 168 outstanding loans with communities that totaled \$149,399,982. The outstanding balances of the ten communities with the largest loan balances, which represents 50% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>
North Platte	\$ 14,198,355
Omaha	10,807,706
SID #1 Gosper County	10,487,873
Lake Wanahoo	9,253,660
Lincoln	5,585,205
Gibbon	5,439,081
Scottsbluff	5,250,650
Broken Bow	4,558,489
Sidney	4,511,857
South Sioux City	4,322,533
TOTAL	<u>\$ 74,415,409</u>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 2010B short-term revenue bonds to meet this requirement. Bond Series 2010B was retired during the year ended June 30, 2011. Bonds Payable activity for fiscal year 2011 was:

	Beginning Balance	Additions	Retirement	Ending Balance
Bonds Payable	\$ -	\$ 2,085,000	\$ 2,085,000	\$ -

5. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 124,546	\$ 5,745	\$ 8,718	\$ 121,573	\$ 8,510

6. Net Assets

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Agency. The following summarizes the capitalization grants awarded, drawn, and the remaining balance as of June 30, 2011. 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, 2011, 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	-

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. 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	19,991,803	53,197
2009	3,415,700	3,415,700	-
2010	10,422,000	6,582,017	3,839,983
TOTAL	\$ 166,893,397	\$ 163,000,217	\$ 3,893,180

The 2010 grant was delayed and was not awarded until September 17, 2010, after the end of State fiscal year 2010. Although the 2010 grant was delayed, the grant award allowed the Agency to charge expenditures for projects to the grant effective September 1, 2009.

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

Contributed Capital July 1, 2010	\$ 147,927,691
Contributed During the Year – Funds From EPA	6,605,026
Funds from ARRA	9,422,500
Contributed Capital June 30, 2011	<u>\$ 163,955,217</u>

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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. Loan Fees Administration

The reported amount comes from a 1 percent fee charged to loan recipients each year based on the amount of the loan outstanding. The fee is collected semi-annually and waived for the first year of the loan.

8. 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.

9. 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 2011 was \$850,000. In the 2011 Intended Use Plan, the Agency limited the maximum amount of small town grants to \$250,000 per project, concurrent with a Program loan. Projects are prioritized based on type of project and financial hardship. Small Town Grants are funded with loan fees administration funds.

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.

10. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Program's principal ongoing operations. The primary operating revenues of the Program are the Loan Fees Administration and interest from loans, since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses and principal forgiveness. Interest expenses are also operating expenses since making loans is the primary purpose of the Program.

11. 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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

defined contribution option is closed to new entrants. All new members of the Plan on or after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska Legislature.

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

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

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

Defined Contribution 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, 2011, employees contributed \$27,603 and the Agency contributed \$43,061. 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.nebraska.gov.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. Contingencies and Commitments

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

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident with a self-insured retention of \$300,000 per accident, except for accidents involving vehicular pursuit which have a \$1,000,000 self-insured retention per accident. Insurance is also purchased for physical damage and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31 million for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. Contingencies and Commitments (Concluded)

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



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2011, and have issued our report thereon dated April 2, 2012. 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

Management of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - 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 over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - 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 1 (Cash Management), Comment Number 2 (Federal Reporting), and Comment Number 3 (Loan Testing).

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's written responses 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 them.

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

April 2, 2012

Don Dunlap, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

Compliance

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, 2011. 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.

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 could have a direct and material effect on the Program for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* and which are described in the Comments Section of this report as Comment Number 1 (Cash Management), Comment Number 2 (Federal Reporting), and Comment Number 3 (Loan Testing).

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 and to test and report on internal control over compliance in accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the Comments Section of this report as Comment Number 1 (Cash Management) and Comment Number 2 (Federal Reporting). 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.

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

April 2, 2012

Don Dunlap CPA
Assistant Deputy Auditor