

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

JULY 1, 2012 THROUGH JUNE 30, 2013

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Issued on April 22, 2014

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. Created by LB 766 (1988), the Wastewater Treatment Facilities Construction Assistance Act is set out at Neb. Rev. Stat. § 81-15,147 (Cum. Supp. 2012) et seq. The Federal Water Quality Act and State statutes established the 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 annual grants starting in 1989. States are required to provide an additional 20% of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2013, the EPA had awarded \$181.5 million in capitalization grants to the State. Of the \$181.5 million awarded, approximately \$20 million was funded by the American Recovery and Reinvestment Act (ARRA). The \$161.5 million not funded by ARRA required the State to contribute approximately \$32 million in matching funds. The State provided appropriations to contribute \$955,000 of the funds to meet the State’s matching requirement. Additional matching funds have been 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.

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EXIT CONFERENCE

An exit conference was held April 4, 2014, 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
Kevin Nelson, CPA	DHHS Internal Audit Administrator
Steve McNulty	DHHS Engineer II
Tom Lamberson	DEQ Deputy Director
Pat Rice	DEQ Interim Director
Jack Daniel	DHHS Administrator I
Jim Novotny	DEQ Accountant III
Stephanie Vap-Morrow	DEQ Environmental Assistance Coordinator
Curtis Youngman	DAS State Finance Systems and Reports Coordinator
Steve Rowell	DEQ Environmental Engineer III
Kevin Stoner	DEQ Environmental Quality Section Supervisor
John R. Danforth	DEQ Environmental Assistance Coordinator
Kris Young	DEQ Accountant III
Mary Brady	DEQ Federal Aid Administrator II
Marty Link	DEQ Environmental Quality Associate Program Director
Martie Guthrie	DEQ Budget Officer III
Mark Herman	DEQ Federal Aid Administrator II

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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SUMMARY OF COMMENTS

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

1. ***Transparency Act Reporting:*** During testing of five subawards required to be reported under the Federal Funding Accountability and Transparency Act, it was noted that the required data elements were not being correctly entered, and the subawards were not being reported timely. Additionally, the Agency did not have procedures in place to review those subawards reported to ensure the data entered was accurate and in compliance with Federal regulations.

More detailed information on the above item is provided hereafter. It should be noted this report is critical in nature, containing only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Agency to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

1. Transparency Act Reporting

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

Grant Number & Year: #CS-31000112-0, FFY 2012; #CS-31000111-0, FFY 2011

Federal Grantor Agency: U.S. Environmental Protection Agency

Criteria: Per Appendix C of the *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting*, dated August 27, 2010, the subaward obligation/action date is the date the subaward agreement was signed. The subaward number is the identifying number assigned by the prime awardee organization to facilitate the tracking of its subawards. The subaward date represents the time period (by month and year) for subawards made against that Federal Award Identifier Number (FAIN).

2 CFR § 170 (January 1, 2013) provides guidance to agencies on establishing requirements for recipients' reporting of information on subawards, as required by the Federal Funding Accountability and Transparency Act (FFATA). Appendix A, § I(a)(2), of that Federal regulation states:

i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

Per OMB Circular A-133, § ___ .300(b) the Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 guidance on FFATA are reported accurately and timely in the FFATA Subaward Reporting System (FSRS) and reflected on the USAspending website. Additionally, a good internal control plan requires procedures to ensure the sources of required data elements are consistent.

Condition: The Agency did not comply with all Federal regulations relating to the guidance on FFATA reporting.

Questioned Costs: None

Context: The APA tested five subawards that were required to be reported under the Transparency Act and noted the following:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION
(Continued)

1. Transparency Act Reporting (Continued)

- One of five subawards tested did not have the correct subaward obligation date. The date stamp of when the award document was received by the Agency was entered rather than the date the contract was signed.
- For one of five subawards tested, the Federal grant number was entered as the subaward number rather than the subaward number the Agency assigned.
- For all subawards tested, the subaward date was reported as the month and year the report was filed, but it should have been the date the subrecipient could start spending the funds.
- Four of the five subawards tested were not reported timely. The number of days late ranged from 25 to 87 days.
- Two of the five subawards were shown on the USAspending website more than once.
- The Agency did not review the FSRS or the USAspending website to ensure subawards were appropriately entered as required.
- The Agency used the subaward signature date as the subaward obligation date for Clean Water grants, while for Drinking Water grants the Agency used the subaward contract date as the subaward obligation date.

Cause: The Agency failed to establish adequate internal controls over its FFATA reporting process.

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

Recommendation: We recommend the Agency implement procedures to ensure required data for the FFATA is entered correctly and on time in the FSRS and on the USAspending website in compliance with Federal requirements. Additionally, we recommend the Agency implement a monthly review of FFATA data entered to ensure data elements are accurately reported and that subawards are only reported once. Finally, we recommend that the Agency determine a consistent method for reporting the subaward obligation date that is in compliance with Federal requirements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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COMMENT AND RECOMMENDATION

(Continued)

1. **Transparency Act Reporting** (Concluded)

***Management Response:** The electronic system provided to enter FFATA reporting information into had several problems when it was deployed. Screens locked up, there were no search capabilities, and changes or updates created additional reports and entries that were not desired. Many of those elements have been improved, but initially our entry into the system was by trial and error. Due to the unique characteristics of the SRF Program and corresponding loan contracts, some of the decisions on dates and amounts to use for reporting were not clear. EPA helped to explain what was expected, and the Agency made those changes in an effort to comply with the FFATA Federal regulation.*

***Corrective Action:** The Agency will evaluate the procedures it uses for FFATA compilation and data entry, to make sure there is consistency in application, that all data is collected, and ensuring information is submitted in a timely manner. Communication of these procedures will be made to SRF program staff once determined.*

***Contact:** Stephanie Vap-Morrow*

***Anticipated Completion Date:** May 31, 2014*



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

Report on the Financial Statements

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective balance sheet of the business-type activities of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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 balance sheet, the changes in financial position and cash flows 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 balance sheet of the Nebraska Department of Environmental Quality as of June 30, 2013, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards* and Regulatory Requirements

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2014, on our consideration of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program’s internal control over financial reporting and on 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* in considering the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's internal control over financial reporting and compliance.

Regulatory Requirements

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 11, 2014, on our consideration of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program’s internal control over compliance and our tests of its compliance with certain provisions of laws, regulations, and grants.

Lincoln, Nebraska
April 11, 2014



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, 2013. This analysis has been prepared by management of the Agency and is intended to be read in conjunction with the Program’s financial statements and related footnotes, 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 Position; 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 position. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Program’s net position 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.

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2013, the net position of the Program increased by 4%. Revenues decreased by 5%, and operating expenses decreased by 3%.

NET POSITION			
	2013	2012 (As Restated)	% Change
Current Assets	\$ 111,725,697	\$ 104,092,998	7%
Noncurrent Assets	132,103,392	129,453,302	2%
Total Assets	243,829,089	233,546,300	4%
Current Liabilities	869,843	525,329	66%
Noncurrent Liabilities	102,827	104,620	-2%
Total Liabilities	972,670	629,949	54%
Net Position:			
Unrestricted	242,856,419	232,916,351	4%
Total Net Position	\$ 242,856,419	\$ 232,916,351	4%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

CHANGES IN NET POSITION

	2013	2012	%
	2013	(As Restated)	Change
Loan Fees Administration	\$ 1,062,491	\$ 1,133,028	-6%
Interest	5,646,586	5,961,621	-5%
Fines, Forfeits & Penalties	425	593	-28%
Debt Service Refund	2,188	833	163%
Total Operating Revenue	<u>6,711,690</u>	<u>7,096,075</u>	<u>-5%</u>
Administration	852,900	867,913	-2%
Grant Expense	884,449	719,806	23%
ARRA Loan Forgiveness	-	26,547	-100%
Non-ARRA Loan Forgiveness	1,536,611	1,743,982	-12%
Total Operating Expenses	<u>3,273,960</u>	<u>3,358,248</u>	<u>-3%</u>
Operating Income	3,437,730	3,737,827	-8%
Capital Contributions Federal Grants	6,514,427	2,817,777	131%
Capital Contributions ARRA Grants	-	53,197	-100%
Interest Expense on Bonds Payable	(12,089)	(15,125)	-20%
Net Nonoperating Revenue (Expenses)	<u>6,502,338</u>	<u>2,855,849</u>	<u>128%</u>
Change in Net Position	9,940,068	6,593,676	51%
Beginning Net Position July 1	<u>232,916,351</u>	<u>226,322,675</u>	<u>3%</u>
Ending Net Position June 30	<u>\$242,856,419</u>	<u>\$ 232,916,351</u>	<u>4%</u>

The increase in current assets was primarily due to several loan payoffs. Operating expenses decreased slightly due to fewer loan forgiveness dollars being given out than in previous years. Revenues decreased as loan payoffs reduced the amount of interest and administrative fees collected.

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

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

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline in recent years; however, net State General Fund revenues for fiscal year 2013 finished the year 7.6% above projections. The State has continued to take steps to avert major economic impacts both statewide and within communities. The small rural makeup of the State remains 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.

DEBT ADMINISTRATION

Short-Term Debt

The Program had debt activity during the fiscal year that was short-term in nature resulting from a bond issue. The issue was for \$1,440,000, which was repaid within the same fiscal year.

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

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 102,058,309
Due from Federal Government	531,911
Interest Receivable	169,489
Loans Receivable (Note 3)	8,965,988
TOTAL CURRENT ASSETS	111,725,697
NON-CURRENT ASSETS:	
Loans Receivable (Note 3)	132,103,392
TOTAL NON-CURRENT ASSETS	132,103,392
TOTAL ASSETS	\$ 243,829,089
 LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable & Accrued Liabilities	\$ 22,403
Due to Grant Recipients (Note 1)	839,700
Compensated Absences (Note 5)	7,740
TOTAL CURRENT LIABILITIES	869,843
NON-CURRENT LIABILITIES:	
Compensated Absences (Note 5)	102,827
TOTAL NON-CURRENT LIABILITIES	102,827
TOTAL LIABILITIES	972,670
 NET POSITION	
Unrestricted	242,856,419
TOTAL NET POSITION	242,856,419
TOTAL LIABILITIES AND NET POSITION	\$ 243,829,089

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 POSITION
 For the Year Ended June 30, 2013

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 7)	\$ 1,062,491
Interest on Loans	3,530,804
Interest on Fund Balance - State Operating Investment Pool (Note 8)	2,115,782
Fines, Forfeits, and Penalties	425
Debt Service Refund	2,188
TOTAL OPERATING REVENUES	6,711,690
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 9)	704,530
4% Administrative Costs from Grants (Note 9)	148,370
Small Town Grants (Note 9)	859,699
Facility Planning Grants (Note 9)	24,750
Loan Forgiveness (Note 9)	1,536,611
TOTAL OPERATING EXPENSES	3,273,960
OPERATING INCOME	3,437,730
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 6)	6,514,427
Interest Expense on Bonds Payable	(12,089)
NET NONOPERATING REVENUE (EXPENSE)	6,502,338
CHANGE IN NET POSITION	9,940,068
TOTAL NET POSITION, BEGINNING OF YEAR - As restated (Note 12)	232,916,351
TOTAL NET POSITION, END OF YEAR	\$ 242,856,419

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, 2013

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 28,695,648
Interest on Investments	2,112,044
Payments for Administration	(857,860)
Payments for Small Town Grants	(628,933)
Payments for Facility Planning Grants	(24,750)
Payments for Loan Forgiveness	(1,419,696)
Payments to Borrowers	(16,264,166)
Debt Service Refund	2,188
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,614,475
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	6,397,512
Receipts From Bond Issue	1,440,000
Repayment of Bond	(1,440,000)
Interest on Bond	(12,089)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	6,385,423
Increase in Cash and Cash Equivalents	17,999,898
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	84,058,411
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 102,058,309
RECONCILIATION OF OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 3,437,730
ADJUSTMENTS TO RECONCILE OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	7,835,906
(Increase)/Decrease in Interest Receivable	(3,738)
(Increase)/Decrease in Administration Fees Receivable	464
(Increase)/Decrease in Loan Interest Receivable	1,393
Increase/(Decrease) in Compensated Absences	(1,927)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(3,034)
Increase/(Decrease) in Due to Grant Recipients	347,681
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 11,614,475

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, 2013

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 Program 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 for which it is financially accountable and other organizations that are fiscally dependent on the Program or whose relationship with the Program is so significant that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (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. The Agency is also considered financially accountable if an organization is fiscally dependent on, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Agency, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Fund Structure

The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. 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 State of Nebraska funds has 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 it 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, as they meet the definition of special revenue funds under GASB Statement 54. In that statement, special revenue funds are defined as funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes.

D. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. An enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 position.

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.

E. Cash and Cash Equivalents

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

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which 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. 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. After the final disbursement has been made, the amortization schedule identified in the loan agreement is adjusted for the actual amounts disbursed and for accrued interest during the project period. The interest rates on loans range from .50% to 5.25%, and the terms could be 5 to 20 years.

The Program loans are funded from Federal capitalization grants, State match funding, and the Clean Water State Revolving Fund. The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. The Clean Water State Revolving Fund is financed through principal repayments plus interest earnings available to finance new projects, allowing the funds to "revolve" over time.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2013, which is collectible in fiscal year 2014. Any loans receivable that were paid in full, prior to their due date, as of December 31, 2013, were included in the current loans receivable balance.

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

G. 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 expenditures 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 be 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 currently eligible to receive termination payments and other employees 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 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% of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

The Program's 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)

1. Summary of Significant Accounting Policies (Concluded)

I. Due to Grant Recipients

The Program awards Facility Planning Grants and Small Town Grants to communities with populations below 10,000 demonstrating serious financial hardship. Municipalities with wastewater treatment facility projects that have made application for grants and whose needs are identified on the Project Priority Planning List on the annual Intended Use Plan and who also meet the population and financial hardship guidelines are given priority for receiving grants.

The Program may choose to provide additional subsidization for municipalities in the form of loan forgiveness, up to a maximum of \$100,000 per project. The Program's power and authority to distribute the additional subsidization is an existing authority under the State Environmental Protection Act at Neb. Rev. Stat. § 81-1504(4) (Reissue 2008) and the Wastewater Treatment Facilities Construction Assistance Act at Neb. Rev. Stat. § 81-15,150 (Reissue 2008). To qualify for loan forgiveness, a community must be considered disadvantaged in regards to meeting affordability criteria, and have a population equal to or fewer than 10,000 people. The loan recipient will not be required to repay the portion of the loan principal that has been designated as loan forgiveness under the terms and conditions of the loan contract. Loan forgiveness is considered a grant for purposes of the financial statements, since repayment is not required.

For Facility Planning Grants, Small Town Grants and Loan Forgiveness awards, once the municipality submits proof of payment to their vendors, they are reimbursed for their project costs by the Program. The Program's financial statements recognized the expense and accrued liability to the Program when the municipality incurred the project expense, which may not be in the same fiscal year as when costs were reimbursed by the Program.

J. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Program's principal ongoing operations. The primary operating revenues of the Program are the loan fees administration and interest on loans, since making loans is the primary purpose of the Program. The principal operating expenses of the Program are administration expenses, small town grants, and loan forgiveness.

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,

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Cash in State Treasury (Concluded)

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

3. Loans Receivable

As of June 30, 2013, the Program had 172 outstanding community loans that totaled \$141,069,380. The outstanding balances of the 10 communities with the largest loan balances, which represent 52.8% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>
Lincoln	\$ 15,393,826
Omaha	13,160,700
North Platte	11,543,970
Gosper SID #1	8,691,504
Broken Bow	5,089,478
Wayne	4,655,054
South Sioux City	4,188,460
Scottsbluff	4,175,641
Sidney	4,049,179
West Point	3,536,919
TOTAL	<u>\$ 74,484,731</u>

4. Bonds Payable

The EPA requires the Program to provide 20% matching funds for each capitalization grant under § 602(b)(2) of the Federal Clean Water Act. During the fiscal year, the Program issued Series 2012 short-term revenue bonds to meet this requirement. Bond Series 2012 was retired during the fiscal year ended June 30, 2013. Bonds Payable activity for fiscal year 2013 was:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Bonds Payable	\$ -	\$ 1,440,000	\$ 1,440,000	\$ -

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Noncurrent Liabilities

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$112,494	\$ -	\$1,927	\$110,567	\$7,740

6. Capital Contributions

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

<u>Federal Fiscal Year Available</u>	<u>Grant Amount</u>	<u>Amount Drawn</u>	<u>Balance</u>
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	-
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	-

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Capital Contributions (Concluded)

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
2009 - ARRA	\$ 20,045,000	\$ 20,045,000	\$ -
2009	3,415,700	3,415,700	-
2010	10,422,000	9,701,660	720,340
2011	7,529,000	5,001,782	2,527,218
2012	7,075,582	678,867	6,396,715
TOTAL	\$ 181,497,979	\$ 171,853,706	\$ 9,644,273

The 2012 grant was delayed and was not awarded until August 14, 2012, after the end of State fiscal year 2012.

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

Contributed Capital July 1, 2012	\$ 166,411,195
Contributed During the Year – Funds from EPA	6,514,427
Contributed Capital June 30, 2013	<u>\$ 172,925,622</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. Included in the Funds from EPA amount is the increase in Due from Federal Government of \$116,916.

Nebraska was awarded \$20,045,000 in American Recovery and Reinvestment Act (ARRA) funds for wastewater treatment facility improvements. The ARRA funds supplemented the Program. The \$20 million in ARRA funds was blended with Nebraska's existing Program loan funds. The communities who received ARRA funding were offered a package which included: a 50% portion low-interest loan from existing State Program funding; a 25% portion no-interest loan of ARRA funds; and a 25% portion loan forgiveness of ARRA funds. ARRA required 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 loan forgiveness. ARRA spending was completed during fiscal year ended 2012.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Loan Fees Administration

An annual fee of up to 1% is charged against the outstanding principal on loans to meet the long term administrative costs of the Program. The fee is collected semi-annually, billed when invoices for principal and interest payments are due, and waived for the first year of the loan. This fee is not included in the loan principal. The Director of the Program may waive this fee during construction, except on projects that only receive interim financing during construction.

8. Interest on Fund Balance – State Operating Investment Pool

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

9. Operating Expenses

The Operating Expenses of the Program are classified, for financial reporting purposes, into five categories:

Administrative Costs from Fees

To meet the long term administrative needs of the program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is deposited into a separate account and is used for administrative costs and other eligible water quality related purposes. The fee on a loan made from leveraged bond proceeds may be set to reflect the cost of issuing bonds and management of the leveraged loan portfolio.

4% Administrative Costs from Grants

The maximum amount allowable for administering and managing the Program is 4% of the cumulative amount of capitalization grant awards received. When the administrative expense of the Program exceeds 4%, the excess must be paid from sources outside of the Program.

Small Town Grants

Small Town Grants are made available to communities per Neb. Rev. Stat. § 81-15,151(2) (Reissue 2008) and Neb. Rev. Stat. § 81-15,153(9) (Cum. Supp. 2012), with populations of ten thousand inhabitants or less, which demonstrate serious financial hardship. The maximum amount to be awarded in Small Town Grants is set at 65% of the revenue from administrative fees collected in the prior fiscal year. The total amount of grants that can be signed into loan contracts for State fiscal year 2013 was capped at \$635,893. In the 2013 Intended Use Plan (IUP), the Agency set the upper limit of grant to each community at \$250,000 per project, concurrent with a Program loan. Projects are prioritized based on the type of project and Median Household Income of the

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Operating Expenses (Concluded)

community. Small Town Grants are funded with loan administration fees collected while a community is repaying its loan.

Facility Planning Grants

Facility planning grants may be provided to municipalities with populations of 10,000 or fewer inhabitants which demonstrate serious financial hardship. Municipalities with wastewater treatment facility project needs that are identified on the project priority list, have not received a grant in the past five years, and also qualify for a Small Town Grant can receive up to 90% of project costs up to a maximum of \$20,000 per project. These grants are funded through the Administrative Cash Fund.

Loan Forgiveness

The State may choose to provide additional subsidization in the form of loan forgiveness up to a maximum of \$100,000 per project to qualifying disadvantaged communities that meet the affordability criteria found in the 2013 IUP. Awarding loan forgiveness is dependent on the availability of funding from Federal capitalization grants and the total amount of funds the Program decides to allocate for forgiveness from each grant. The Program will reserve at least \$400,261 (5.5% of the capitalization grant) for forgiveness, but up to \$600,392 (8.3%) can be used for additional subsidization. The Program's authority to distribute the additional subsidization is an existing authority under the State Environmental Protection Act at Neb. Rev. Stat. § 81-1504(4) (Reissue 2008) and the Wastewater Treatment Facilities Construction Assistance Act at Neb. Rev. Stat. § 81-15,150 (Reissue 2008). Together, these statutes allow the Program to accept and expend federal grants for projects described in these references. Loan forgiveness discharges the community from repaying that portion of the principal amount of its loan under the terms and conditions of the loan contract.

10. State Employees Retirement Plan (Plan)

The single-employer Plan became effective by statute on January 1, 1964. The Public Employees Retirement Board was created in 1971 to administer the Plan. 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 either to continue participation in the defined contribution option or to begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan are established and can only be amended by the Nebraska Legislature.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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 eighteen 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, 2013, employees contributed \$21,442, and the Agency contributed \$33,449. 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 Financial Report (CAFR) also includes pension-related disclosures. The CAFR report 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)

11. Contingencies and Commitments

Risk Management. The Agency is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Agency, as part of the primary government for the State, participates in the State's risk management program. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State typically 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 \$5,000,000 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, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. 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 \$31,000,000 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)

11. 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.

12. Restatement of Beginning Net Position

Beginning Net Position on the Statement of Revenues, Expenses, and Changes in Net Position decreased by \$77,023 to reflect fiscal year ended 2012 unrecorded expenses of \$492,019 and a related receivable, Due from Federal Government, of \$414,996 that had not been reflected in the prior year.



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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***

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's basic financial statements, and have issued our report thereon dated April 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a 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. 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.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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*.

The Nebraska Department of Environmental Quality's Response to the Finding

We noted a certain matter 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 (Transparency Act Reporting).

The Nebraska Department of Environmental Quality's response to the finding identified in our audit is described in the accompanying Comments Section of this report. The Nebraska Department of Environmental Quality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lincoln, Nebraska
April 11, 2014



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**

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

Report on Compliance for the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program

We have audited the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's compliance 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 could have a direct and material effect on the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program for the year ended June 30, 2013. 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; Davis Bacon; State Matching; Period of Availability of Funds; Suspension and Debarment; Program Income; Reporting; Subrecipient Monitoring; and Special Tests and Provisions.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program based on our audit of the types of compliance requirements referred to above. 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 and the Audit Guide 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 Nebraska Department of Environmental Quality – Clean Water State Revolving Fund 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 on compliance for the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program. However, our audit does not provide a legal determination of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's compliance.

Opinion on the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program

In our opinion, the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is 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 is described in the Comments Section of this report as Comment Number 1 (Transparency Act Reporting). Our opinion on the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program is not modified with respect to this matter.

The Nebraska Department of Environmental Quality's response to the noncompliance finding identified in our audit is described in the accompanying Comments Section. The Nebraska Department of Environmental Quality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's internal control over compliance with the types of requirements that could have a direct and material effect on the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program 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 Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Accordingly, this report is not suitable for any other purpose.

Lincoln, Nebraska
April 11, 2014



Don Dunlap, CPA
Assistant Deputy Auditor