

**State of Nebraska
Department of Environmental Quality
Department of Health & Human Services
Division of Public Health**

Drinking Water State Revolving Fund Annual Report

State Fiscal Year 2015



October 2015

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EXECUTIVE SUMMARY

Biennial reports are a requirement of the Environmental Protection Agency (EPA) for the Drinking Water State Revolving Loan Program (DWSRF). Nebraska has provided annual reports to EPA in lieu of the biennial report requirement. The program is also required to make an annual report to the Governor and Legislature. This annual report is for the State Fiscal Year (SFY) 2015 (July 1, 2014 through June 30, 2015). This report is a combined effort of the Nebraska Department of Environmental Quality (NDEQ) and the Nebraska Department of Health and Human Services-Division of Public Health (NDHHS-DPH).

The Nebraska Drinking Water State Revolving Loan Fund Annual Report for SFY 2015 describes the state's efforts to meet the goals and objectives of the DWSRF. The projects identified in the Intended Use Plan (IUP), the actual use of funds, and the financial position of the DWSRF are itemized in this report. The Financial Schedules Section along with the notes to the financial schedules is the report focus, with the Program Section serving to provide supplemental information tying back to the IUP. An effort has been made to avoid duplication of the information provided in the program section with the information provided in the financial schedules.

The DWSRF program allocated a total of \$204.7 million plus forgiveness of \$27.9 million to 199 Public Water System (PWS) projects beginning with the program's inception through June 30, 2015. The Federal Fiscal Year (FFY) 2014 EPA capitalization grant was received in July of 2014. That capitalization grant was matched through a short-term revenue bond issue. The FFY 2015 EPA capitalization grant was received in June of 2015, which was cash matched. The FFY 2016 EPA capitalization grant is scheduled to be awarded next calendar year. The match for that grant will also be cash matched.

I. FINANCIAL SCHEDULES SECTION

BACKGROUND

The Nebraska Department of Environmental Quality (Agency) – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. Neb. Rev. Stat. §§ 71-5314 to 71-5327 created the Drinking Water State Revolving Fund Act. The Federal Safe Drinking Water Act and State statutes established the Drinking Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low interest loans with some forgiveness to finance the entire cost of qualified projects. The Program provides a flexible financing source which can be used for a variety of projects. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities may choose to have up to 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2015, the EPA had awarded \$166 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$166 million required the State to contribute approximately \$33 million in matching funds. The State provided appropriations to contribute \$2.33 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of long-term revenue bonds, or through cash from the Special Reserve Accounts of retired bonds or from transfers out of the Drinking Water Administration Fund. In June of 2015, the Agency retired the remaining long-term bond issues. After the retirement, \$1,035,856 remained from the associated reserve funds. This was used, along with \$721,544 of Administration cash funds, to match the 2015 Capitalization grant for a total of \$1,757,400 (\$8,787,000 x 20%). Prior, in July of 2014, the program issued short-term revenue bonds of \$1,770,000 to provide the match for the 2014 Capitalization grant (\$8,845,000 x 20%). That bond matured in less than one year, in June of 2015.

The Program is administered by the Nebraska Department of Environmental Quality (Agency) and the Nebraska Department of Health and Human Services – Division of Public Health. The Agency's primary activities with regard to the Program include the making of loans for facilities, and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Agency and the Program's Intended Use Plan. The Nebraska Department of Health and Human Services – Division of Public Health sets the funding priorities.

A. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Agency) – Drinking 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, 2015. 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 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, 2015, the net position of the Program increased by 9.7%. Operating revenues for the Program increased by 6.0%, while operating expenses increased by 9.4%.

NET POSITION			
	2015	2014	% Change
Current Assets	\$71,216,298	\$65,699,956	8.4%
Noncurrent Assets	92,063,104	89,104,973	3.3%
Total Assets	163,279,401	154,804,929	5.5%
Current Liabilities	216,516	1,375,754	-84.3%
Noncurrent Liabilities	20,964	4,804,257	-99.6%
Total Liabilities	237,480	6,180,011	-96.2%
Net Position:			
Net Investments in Capital			
Assets			
Restricted	69,576	21,148	100.0%
Unrestricted	-0-	1,019,143	-100.0%
Unrestricted	162,972,345	147,584,627	10.4%
Total Net Position	\$163,041,921	\$148,624,918	9.7%
CHANGES IN NET POSITION			
	2015	2014	% Change
Loan Fees Administration	\$991,220	\$974,841	1.7%
Interest	3,960,561	3,696,570	-7.1%
Debt Service Refunds	1,044	-0-	100%
Total Operating Revenues	4,952,825	4,671,411	6.0%
Administration & Set-a-sides	2,836,448	2,618,967	7.7%
Loan Forgiveness	1,746,213	1,570,078	11.2%
Total Operating Expenses	4,582,662	4,189,045	9.4%
Operating Income (Loss)	370,163	482,366	-23.3%
Capital Contributions:			
Federal Grants	14,176,973	9,983,986	42.0%
Interest Expenses on Bonds	(130,133)	(283,198)	-54.0%
Net Non-operating Revenue (Expense)	14,046,840	9,700,788	44.8%
Change in Net Position	14,417,003	10,183,154	41.6%
Beginning Net Position July 1	148,624,918	138,441,764	7.4%
Ending Net Position June 30	\$163,041,921	\$148,624,918	9.7%

The most significant changes from the fiscal year ended June 30, 2014, to the fiscal year ended June 30, 2015, were the Administration and Set-Asides and Loan Forgiveness balances. Administrative and Set-Aside expenses increased from last fiscal year particularly in the 15% Source Water Assessment Program set-a-side. This is a set-a-side utilized jointly by the Department of Health and Human and the Department of Environmental Quality. Funds are utilized from various sources for this purpose. One source may be more fully utilized in one fiscal year over another. Loan Forgiveness also increased, which was a result of the types and make-up of loans paid out during the year. Forgiveness dollars were awarded per grant requirements, but were not necessarily paid out on an annual basis. Due to several bond redemptions, as well as early loan pay-offs in previous and current years, the cash balance has increased significantly. This has resulted in a higher ending Net Position for the program.

Federal funds 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.

ECONOMIC OUTLOOK

The small rural makeup of the State remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to collect the amount of user fees needed to fund infrastructure requirements.

DEBT ADMINISTRATION

Long-Term Debt

The Drinking Water State Revolving Fund had long-term debt activity during the fiscal year as reflected in Noncurrent Liabilities in the Net Position section. See the Notes to the Financial Statements for more detailed information on the Bonds Payable, which represents the fund's long-term debt activity as well as the fund's short-term debt activity for this fiscal year.

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

LGTS is a comprehensive software application developed by Northbridge Environmental, that is designed for Nebraska's State Revolving Fund (SRF) managers and staff to track and manage all aspects of their Clean and Drinking Water SRF programs from project loan application to final repayment, as well as tracking all capital contributions, set-aside spending, and bond issuance and repayment.

The software was developed to address the data management needs for all of the steps in the SRF management process including priority list development, facility location and identification, engineering review and milestone tracking, inspections, contacts, contract approvals and change orders, detailed payment request processing, project spending forecasts, encumbrances, funding draws and transfers, disbursements, amortization schedule creation and management, billing, repayment processing, fund deposits, and tracking of repaid funds by their original source. The software also contains a general ledger that each state can customize to match existing accounting systems and create trial balances, financial statements, and related financial schedules.

LGTS has built-in role based security that requires users to log in each time they open the program. This security system is based on defined roles that each user is playing in the program. Security roles limit users to performing certain functions.

Historical data is extracted from spreadsheets or other data systems to load LGTS with data, test the validity of the data, and ensure that LGTS can be used effectively. This task is handled by a combination of staff efforts to assemble existing data sources and outside help to ensure that the data is used properly. This process usually yields a dual benefit of having a system with clean data and provides a quality assurance check of the many transactions that have occurred years ago and often by a number of staff members.

Nebraska's SRF programs have begun implementation of the LGTS system. During fiscal year 2014, planning of the implementation phases, business rules, and hardware/software installations occurred. During fiscal year 2015, the system was used concurrently with existing systems, to create a basis for reliability and consistency. Once dependable, reconciled results will be established, the existing internal system will be discontinued, and LGTS will become the sole system for use within the SRF program alongside the State Accounting system.

Contract costs for the purchase and implementation of the LGTS system have been handled through the existing Northbridge contract with Federal EPA procurement. Therefore, expenditures are withheld as an "in-kind" deduction to the total annual DWSRF grant, which is awarded to the program each year. Federal EPA staff negotiate, monitor and manage the Northbridge contract for LGTS.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET - UNAUDITED
 June 30, 2015

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash & Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 64,513,219
Amounts Held by Trustee (Note 2)	-0-
Amounts Held by Trustee – Restricted (Note 2)	-0-
Due from Federal Government	370,957
Interest Receivable	98,096
Loans Receivable (Note 3)	6,234,026
TOTAL CURRENT ASSETS	71,216,298
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	91,972,381
Capital Assets, Net (Note 4)	90,724
TOTAL NON-CURRENT ASSETS	92,063,104
TOTAL ASSETS	\$ 163,279,401
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable & Accrued Liabilities	298,523
Due to Grant Recipients	140,203
Compensated Absences	1,578
Accrued Bond Interest Payable	(223,788)
Bonds Payable (Note 4)	-0-
TOTAL CURRENT LIABILITIES	216,516
NON-CURRENT LIABILITIES	
Compensated Absences	20,964
Bonds Payable (Note 4)	-0-
TOTAL NON-CURRENT LIABILITIES	20,964
TOTAL LIABILITIES	\$ 237,480
NET POSITION	
Net Investment in Capital Assets	69,576
Restricted for Bond Payments	-0-
Unrestricted	162,972,345
TOTAL NET POSITION	163,041,921
TOTAL LIABILITIES AND NET POSITION	\$ 163,279,401

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - UNAUDITED
For the Year Ended June 30, 2015

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 6)	\$ 991,220
Interest on Loans	2,351,966
Interest on Fund Balance - Trustee	588,902
Interest on Fund Balance - State Operating Investment Pool (Note 9)	1,019,693
Debt Service Refund	1,044
TOTAL OPERATING REVENUES	\$ 4,952,825
OPERATING EXPENSES:	
Administration From Fees (Note 9)	464,065
15% Source Water Assessment Program (Note 9)	839,929
2% Technical Assistance to Small Systems (Note 9)	101,250
10% Public Water Supply System (Note 9)	1,431,204
Loan Forgiveness (Note 9)	1,746,213
TOTAL OPERATING EXPENSES	\$ 4,582,662
OPERATING INCOME	370,163
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	14,107,397
Capital Contributions - Federal Grants – Capital Assets	69,576
Interest Expense - State Match Bonds	(103,006)
Interest Expense on Bonds Payable - Short-term	(8,909)
Cost of Bond Issuance	(18,218)
NET NONOPERATING REVENUE (EXPENSE)	14,046,840
CHANGE IN NET POSITION	14,417,003
TOTAL NET POSITION, BEGINNING OF YEAR (Note 13)	148,624,918
TOTAL NET POSITION, END OF YEAR	\$ 163,041,921

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
UNAUDITED STATEMENT OF CASH FLOWS - UNAUDITED
 For the Year Ended June 30, 2015

Enterprise Fund

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts From Customers	\$ 13,050,028
Interest on Investments	1,593,753
Payments to Borrowers	(12,369,360)
Payments for Administration	(491,112)
Payments for 15% Source Water Assessment Program	(719,746)
Payment for 2% Technical Assistance to Small Systems	(135,000)
Payments for 10% Public Water Supply System	(1,218,626)
Payments for Loan Forgiveness	(2,010,876)

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ (2,300,938)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Funds Received From the Environmental Protection Agency	14,198,771
Receipts from Bond Issue (Short-term)	1,770,001
Repayment of Bond (Short-term)	4,766,236
Bond Principal Payments (Long-term)	(5,008,788)
Bond Interest Payments (Long-term)	(444,076)
Payment for Bond Issuance Costs	(18,218)

NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES:

15,263,925

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital Contributions	-0-
Purchase of Capital Assets	(69,576)

NET CASH USED BY CAPITAL FINANCING ACTIVITIES

(69,576)

Increase in Cash and Cash Equivalents

12,893,411

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

51,619,808

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 64,513,219

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 370,163
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ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

(Increase)/Decrease in Loans Receivable	(2,662,517)
(Increase)/Decrease in Interest Receivable	(14,843)
(Increase)/Decrease in Loan Interest Receivable	-
(Increase)/Decrease in Admin Fees Receivable	-
(Increase)/Decrease in Due from Contractor	42,720
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	226,365
Increase/(Decrease) in Compensated Absences	1,836
Increase/(Decrease) in Due to Grant Recipients	(264,663)

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ (2,300,938)

For the Fiscal Year Ended June 30, 2015

1. **Summary of Significant Accounting Policies**

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Agency) – Drinking 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) and the Trustee (Wells Fargo Bank) for the State match bond accounts.

B. Reporting Entity

The Program is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act of the State of Nebraska. The 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 Environment Quality – Drinking 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 regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The State accounting system includes the following Program funds, as identified in the Drinking Water State Revolving Fund Act:

- Drinking Water Facilities Funds – General Fund 10000; Federal Funds 48416, 48417, and 48418; and Bond Funds 68480, 68481, 68482, 68483, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

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 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 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

Cash and cash equivalents primarily consist of cash in the State Treasury. This includes cash in bank accounts and petty cash, 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, 2015, 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.

Money Market Funds held by Bond Trustee are also considered cash equivalents due to their liquid nature.

Bond Trustee Investments – The investments held by the Bond Trustee consists of CDC Funding Corporation Guaranteed Investment Contracts (GICs) and are recorded at carrying value for fiscal year 2014.

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 2.0% to 4.0%, and the terms could be 5 to 30 years. Disadvantaged communities may have up to 30 years to repay.

The Program loans are funded from Federal capitalization grants, State match funding, and the Drinking Water State Revolving Fund. The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. Reimbursements to communities are paid 100% from State matching funds until they have been exhausted, and then from federal capitalization grant funds or Drinking Water State Revolving funds. The Drinking Water State Revolving Fund is financed through principal repayments plus interest earnings becoming available to finance new projects, allowing the funds to "revolve" over time.

The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2015, which is collectible in fiscal year 2016. Loans receivable that were paid in full, prior to their due date, as of August 31, 2015, were included in the current loans receivable balance as opposed to the long-term loans receivable balances.

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. Restricted Net Assets

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources, as they are needed. Net position is reported as restricted when resources are held in a separate account that can be used to pay debt principal and interest only and cannot be used to pay other current liabilities, as required by the bond agreement.

H. 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.

I. 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.

J. Due to Grant Recipients

Planning Grants for Preliminary Engineering Reviews are awarded through the Federal Capitalization Grant 15% set-aside funds. The Program awards Planning Grants to communities with populations below 10,000 where the Public Water System is operated by a political subdivision. Available grants are given upon evidence that the eligible Public Water System has entered into a contract with a professional engineer to develop a preliminary engineering report. Planning Grants are intended to provide financial assistance to Public Water Systems for projects seeking funding through the Water Wastewater Advisory Committee common pre-application process. The grant covers 90% of the preliminary engineering report and other eligible costs and will require 10% matching funds from the Public Water System.

Source Water Protection Grants are also awarded through the Federal Capitalization Grant 15% set-aside funds. They are available for proactive projects geared toward protecting Nebraska's drinking water supplies and will address drinking water quality, quantity, security, and/or education. Eligible applicants are political subdivisions that operate a Public Water System serving a population of 10,000 or fewer.

The Program may choose to provide additional subsidization for municipalities in the form of loan forgiveness. Forgiveness funds will be targeted primarily to the highest ranked eligible projects on the Priority Funding Lists, those that address public health needs, or those that have the components to meet Green Project Reserve guidelines. 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 Planning Grants, Source Water Protection Grants, and Loan Forgiveness awards, once the municipality submits proof of payment to their vendors, they are reimbursed for its 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.

K. 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 and loan forgiveness.

L. Capital Assets

The Drinking Water SRF program has only one Capital Asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Agency began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and is anticipating this phase to be completed during the fiscal year ended June 30, 2016. The LGTS software is considered an

Intangible Capital Asset, and the Agency follows the capitalization policy set forth by the State of Nebraska for Intangible Capital Assets, which requires capitalization of such assets when the cost of such asset is in excess of \$100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the developmental phase and the software being put into production, and it will be computed using the straight-line method over the estimated useful life of the asset.

2. Cash in State Treasury and Amounts Held by Trustee

Cash in State Treasury. The 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, 2014. 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 2015. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee. From 2000 through 2010, the Nebraska Investment Finance Authority (NIFA) (the “Issuer”) issued long-term revenue bonds, the proceeds of which were used by the Agency to provide the 20% match requirements for the Agency’s Federal Capitalization Grants (See Note 4, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, established the appropriate accounts and invested the monies in accordance with the Master Trust Indenture dated June 1, 2000. At June 30, 2015, the amount held by the Trustee was zero. During fiscal year 2015, the Agency used investment income to fully redeem remaining outstanding bonds that were either fully mature, or available for early payoff. The 2010A bond is not mature until July, 2017. The Agency entered into an Escrow Agreement with Wells Fargo to establish an escrow account, funded by the Agency, which allows for the future principal and interest payments on the 2010A bond to be paid when they are due, and to fully release the Agency from further liability of the outstanding bond under the Master Trust Indenture dated June 1, 2000.

The Nebraska Investment Finance Authority (NIFA) continues to be the issuer of short-term revenue bonds, the proceeds of which are used by the Agency to provide the 20% match requirements for the Agency’s Federal Capitalization Grants. The nature and design of the short-term bonds are that they are issued and mature within the same fiscal year, and therefore, at year end, there is no cash amount held by the Trustee.

3. Loans Receivable

As of June 30, 2015, the Program had 120 outstanding community loans that totaled \$98,206,406.57. The outstanding balances of the 10 communities with the largest loan balances, which represent 55.0% of the total loans, were as follows:

<u>Community</u>	<u>Outstanding Balance</u>
Lincoln	\$13,986,706
McCook	8,206,611
Gering	5,943,147
Metropolitan Utilities District	4,879,391
North Platte	4,759,976
Auburn	4,066,806

Sidney	3,701,024
Alliance	3,303,589
Blair	3,083,869
Ravenna	2,103,250
TOTAL	\$54,034,368

4. Capital Assets

The Drinking Water SRF capital assets activity for the year ended June 30, 2015, was:

	Beginning Balance	Additions	Retirements	Ending Balance
Software Development In- Process Loans and Grants Tracking System (LGTS)	\$ 21,148	\$ 69,576	\$ -	\$ 90,724

5. Bonds Payable

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues the bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes.

Short-Term Bonds: During the fiscal year, the Program issued Series 2014 short-term revenue bonds to meet the requirement of matching the FFY14 capitalization grant with 20% of non-federal funds. Bond Series 2014 was retired during the fiscal year ended June 30, 2015. Bonds Payable activity for fiscal year 2015 on the short-term bonds was:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	\$ -	\$ 1,770,000	\$ 1,770,000	\$ -

Long-Term Bonds: The Series 2000A, 2008A, and 2010A

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	\$ 5,565,000	\$ -	\$ 5,565,000	\$ -

Bonds Payable at June 30, 2014, consisted of the following:

Series	Original Issue	Retirements	2014 Balance	Interest Rate
2000A	\$5,530,000	\$4,065,000	\$1,465,000	4.8-5.7%
2008A	1,965,000	580,000	1,385,000	2.75-5.0%
2010A	3,110,000	395,000	2,715,000	0.9-4.0%

The 2000A Series Bonds were issued June 29, 2000, the Series 2008A Bonds were issued October 3, 2008, and the Series 2010A Bonds were issued November 12, 2010.

6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2015, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$20,706	\$1,836	\$ -	\$22,542	\$1,578

7. 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 EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2015. 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, 2015, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1997	\$ 12,824,000	\$ 12,824,000	\$ -
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 - ARRA	19,500,000	19,500,000	-
2009	8,146,000	8,146,000	-
2010	13,573,000	13,573,000	-
2011	9,418,000	9,418,000	-
2012	8,695,558	8,695,558	-
2013	8,533,907	4,246,947	4,286,960
2014	8,845,000	4,863,358	3,981,642
TOTAL	\$176,916,191	\$168,647,589	\$8,268,602

The 2015 grant was awarded on June 8, 2015. The award was for \$10,544,400 which consists of \$8,787,000 of federal dollars, and \$1,757,400 of State match dollars. Not included in the above Grant totals are the amounts set aside as in-kind contributions for the Loans Grants Tracking

System (LGTS) software development. The 2012 grant had \$166,535 set aside as in-kind amounts for use by the EPA for the development of the new LGTS software. The amount expended/drawn for the LGTS software for fiscal year ending June 30, 2015 was \$69,576. The following is a summary of changes in the total contributed capital:

Contributed Capital July 1, 2014	\$ 156,723,317
Contributed During the Year:	
Funds from EPA	14,107,397
Contributed Capital June 30, 2015	\$170,830,714

Also included in the contributed capital is a total of all general funds received by the Program from the Legislature of the State of Nebraska. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed \$1,162,318 and \$1,166,518 in the fiscal years ended June 30, 1998, and 1999, respectively. Included in the Funds from the EPA amount is the reversal of the net decrease in Due From Federal Government from prior years of \$54,337, and the decrease in Due From Federal Government from the current year of \$91,374.

8. Loan Fees Administration

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. These fees are not included in the loan principal. It is calculated on a semi-annual basis and billed when loan principal and interest payments are due. The fee is applied to all loans in accordance with Title 131 Nebraska Administrative Code Chapter 8 and the loan agreement.

9. 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.

10. Operating Expenses

The operating expenses of the Program are classified, for financial reporting purposes, into five categories. There were expenses related to three set-aside activities established under §1452 of the Safe Drinking Water Act. The three set-aside activities are:

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

A Memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services so that the Agency can carry out oversight and related activities of the Program. The Program provides funding to the Nebraska Department of Health and Human Services with the three set-asides noted above.

All set-asides are required to be federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these 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 of the Program. Revenues from fees can be used to provide the capitalization grant match, loan forgiveness, or planning grants.

15% Source Water Assessment Program

Identified in Federal regulations as local assistance and other State programs, a State may use up to 15% of the capitalization grant amount for specified uses, as follows:

- Provide assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- Support the establishment and implementation of wellhead protection programs; and
- Provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A State may use up to 2% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority and use it for the same activities in later years. A State may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A State may use up to 10% of the grant funds awarded to:

- Administer the State Public Water System Supervision program;
- Administer or provide technical assistance through source water protection programs, which includes the Class V portion of the Underground Injection Control Program;
- Develop and implement a capacity development strategy; and
- Develop and implement an operator certification program.

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments the State subsidized to communities meeting the definition of "disadvantaged" or which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year's capitalization grant cannot exceed 30% of the amount of the capitalization grant for that year.

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.

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 18 years, may exercise the option to begin participation in the retirement system.

Contribution. Per statute, each member contributes 4.8% of his or her 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, 2015, employees contributed \$11,509, and the Agency contributed \$17,954. 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.

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.

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.

PROGRAM INFORMATION SECTION

A. Fund Activities

1. Loan and Investment Status

The fund has a loan portfolio containing \$204,739,459 in total loan allocations, of which \$87,272,318 was repaid; \$98,206,195 is outstanding, leaving \$22,249,654 still to be disbursed. Details on the Fund portfolio of 199 loans are in Attachment 1. The blended interest rate on the State Fiscal Year (SFY) 2015 outstanding loan balance is 2.387%. The result was an overall 7.6 basis point decrease from SFY 2014. The blended rate will decrease again over the next year.

2. Binding Commitments, Loan Assistance and Set-aside Allocations

This past SFY, the DWSRF entered into nine binding commitments in order to provide financial assistance to PWS projects totaling \$6,891,012. Of that amount, disadvantaged communities received \$673,609 in forgiveness funding. Further, the Federal Fiscal Year (FFY) 2011 and 2012 capitalization grants required that a minimum of 30% and 20% of those grants be reserved for additional subsidization (e.g., principal forgiveness), respectively, and that 20% be reserved for the Green Project Reserve (GPR) (e.g., water meters) from the 2011 grant. Over 90% of the FFY 2011 grant requirements have been met, with a planned GPR loan for the City of Osmond, for a project scheduled to start in their 2015/2016 budget year, to close out the grant requirements. While only one-third of forgiveness has been awarded to meet the FFY 2013 additional subsidization requirement as of the end of the fiscal year, numerous major loan closings were made as of this report preparation, so that required grant condition has been met.

Attachment 2 provides information showing the loan agreements entered into during SFY 2015 by quarter and shows the cumulative binding commitment amount since the program initiation. The requirement is to allocate 100% of the capitalization grant less set-asides plus required state match within one year of receiving the grant payment. The cumulative requirement is \$175,954,317. The DWSRF has reached a cumulative binding commitment amount of initial loan awards of \$244,178,791 or 138.77% of the required amount.

From the FFY 2014 capitalization grant \$2,035,700 was allocated to the 2% (\$176,200), 10% (\$1,234,500) and 15% (\$625,000) Set-Asides. From the FFY 2015 capitalization grant \$1,659,500 was allocated to the 10% (\$1,234,500) and 15% (\$425,000) Set-Asides. Further detail is provided below regarding the use of those set-aside allocations.

3. Administration (4%) Set-Aside and Cash Fund

The program is now utilizing the Administration cash fund for most of the salaries and associated expenses of personnel administering the DWSRF program and is not presently exercising this set-aside option for staffing. However, funds were reserved from the current fiscal year for implementation of the Loan and Grant Tracking Software (LGTS), a comprehensive software application that will be designed specifically for Nebraska's DWSRF to track and manage all aspects of program loans, capital contributions, and bond issuance and repayment. It is anticipated that the LGTS will be fully online during SFY 2016.

DWSRF oversight at NDHHS-DPH has included the following activities:

- Held a public forum to seek input on the priority ranking system.
- Reviewed and adopted the priority ranking system.

- Presented the priority ranking system to the Advisory Council on Public Water Supply for their approval.
- Conducted Needs Surveys and solicited applications.
- Developed the prioritized project lists.
- Provided NDEQ with information on potential DWSRF loan applicants.
- Developed the Set-Aside Work Plan.
- Prepared DWSRF Intended Use Plan documents.
- Performed technical reviews of preliminary engineering reports for DWSRF projects.
- FNSI & Categorical Exclusion preparation.
- Determined compliance of project construction documents with Nebraska / Federal Safe Drinking Water Act requirements for DWSRF projects.
- Attended DWSRF project and other related meetings, as needed.
- Conducted DWSRF-related field inspections to determine compliance of construction with plans and specifications as approved by NDHHS-DPH.
- Provided NDEQ copies of approval letters for the proposed construction and for placement into service upon completion of the DWSRF projects and final inspection by NDHHS-DPH.
- Provided NDEQ with input on FNSI's and Categorical Exclusions.
- Performed NDHHS-DPH capacity development strategy related reviews.
- Completed special EPA / DWSRF workload activities as requested.
- Participated in the EPA and State program audits.
- Reviewed Operation and Maintenance Manuals for DWSRF funded projects.

At NDEQ, funds from the Administration Cash Fund paid salaries and associated expenses of personnel administering the DWSRF program. DWSRF administration in NDEQ has included the following activities:

- Developed program documents and procedures.
- Solicited applications.
- Issued the IUP.
- Conducted a public hearing for the IUP.
- FNSI & Categorical Exclusion issuance.
- Grant application processing.
- Loan application processing.
- Plans and specification reviews for assurances.
- Construction management.
- Match and/or bond procurement.
- Bond redemption.
- Disbursement processing.
- Loan servicing.
- Financial accounting.
- EPA and State project and program audits.
- Financial modeling.
- Attended state and national meetings.

4. Set-Aside Small Systems Technical Assistance (2%)

During SFY 2015 NDHHS-DPH had contracts with one assistance provider:

- Midwest Assistance Program (MAP)

This organization helped small systems:

- Determine what technical, financial and/or managerial assistance is needed.

- Explore different types of financial assistance available.
- Apply for financial assistance.
- Review management and organization structure and offer alternative methods of operation and management.
- Perform financial and managerial assessments of water systems that are applying for SRF funding or that are deemed to be in need of such an assessment.
- Develop corrective action goals which are based on the findings of technical assessments.
- Provide technical, financial and managerial assistance to PWS identified as needing such assistance.
- MAP was committed to conducting an average of 20 contacts each month, with a minimum of 15 on-site and 5 in-office contacts.
- Provide a minimum of 12 instruction sessions per year to Board/Council members and Owners of community water systems regarding the technical, managerial, and financial aspects of running a sustainable water system.

5. State Program Management: Capacity Development (10%)

A. Engineering & Field Services and Monitoring & Compliance Staff

This set-aside was used to fund salaries, benefits, and all other related operating expenses (e.g., travel, etc.) for staff employed in Nebraska's Public Water Supply Supervision (PWSS) Program in accordance with the work plan approved under the EPAs PWSS Program grant. The staff positions include Drinking Water Program Specialists in the Monitoring and Compliance program, Water Supply Specialists in the Field Services Program, and Engineers in the Engineering Services Program. In addition, this set-aside funded the Department's Water Security Coordinator position.

B. Capacity Development

From July 1, 2014 through June 30, 2015, MAP, under the technical, financial and managerial contract, made system visits with an average of thirty-one (31) contacts per month for a total of three-hundred sixty-nine (369) contacts involving three hundred eleven (311) PWSs. Included in the contacts are fourteen (14) board/council training sessions that MAP presented.

In SFY 2015, Field Services representatives performed 371 Routine Sanitary Surveys (RSS) and 28 Follow-up surveys. There were 187 Community, 55 Non-Transient, and 128 Transient Non-Community Routine Sanitary Surveys performed. The numbers of deficiencies found are as follows:

Community Systems:

Significant: 411 Minor: 194

A total of 605 deficiencies. Average of 3.2 significant or minor deficiencies per system.

Non-Transient Non-Community Systems(NTNC):

Significant: 111 Minor: 36

A total of 147 deficiencies. Average of 2.3 significant or minor deficiency per system.

Transient Non-Community Systems:

Significant: 152 Minor: 63

A total of 215 deficiencies. Average of 1.6 significant or minor deficiencies per system.

Of the 967 significant and minor deficiencies found in SFY 2015 there are only 57 left to still be corrected. The vast majority of these are record keeping related deficiencies. This means that for SFY 2015 Nebraska had 94% deficiency correction rate. There are 33 PWSs that had a RSS in SFY 2015 that still have at least one outstanding deficiency. Ninety-one percent of the PWSs

have fully complied with all deficiencies that were found. With increased attention being paid to sanitary survey deficiencies, we fully expect the deficiency correction number to be close to 96% in SFY 2016. Because of the Safe Drinking Water Information System (SDWIS) database, the State can effectively compare survey and deficiency data. The normal rotation for sanitary surveys is every three years for Community and Non-Transient Non-Community systems and every five years for Transient Non-Community systems. In 2016, NDHHS-DPH will be able to take a look back at Community and NTNC systems, compare survey data, and see if the numbers of deficiencies found decreased as planned and whether or not NDHHS-DPH found the same deficiencies. If the numbers of deficiencies decrease, we can be sure that our Capacity Development program is working.

C. Operator Certification

During SFY 2015, NDHHS-DPH held nine water operator training courses applicable to various grade levels. Water operator licenses were issued to 123 individuals in SFY 2015. The number issued per license grade is as follows:

Grade I - 1 license
Grade II - 2 licenses
Grade III - 14 licenses
Grade IV - 106 licenses

All PWSs are required to obtain the services of an operator holding a valid license equal to or greater than the classification of the water system. Grade IV is Nebraska's lowest level of license for a person to be able to operate a Community or Non-transient Non-Community PWS. Grade I is the highest.

Grade V water operators are not included in this report. A Grade V is issued to an individual who operates a Transient Non-Community PWS and is not required to be renewed. All other water operator licenses require continuing education for renewal, and require those licenses be renewed every two years.

D. Documentation of 1:1 Match for 10% Set-Aside

The State may use up to a total of 10 percent of the Capitalization Grant for the PWS Program Administration set-aside, but must provide a one-to-one state match as required by Section 1452(g)(2) of the SDWA. NDHHS-DPH used \$1,234,500 from the FFY 2014, and will use the same from the FFY 2015 Capitalization Grant to administer Nebraska's Public Water Supply Program during SFY 2015 into SFY 2016. That amount included \$700,000 of authority that had been previously reserved from past capitalization grants. NDHHS-DPH used a combination of the following to meet the match requirement for the 10 percent set-aside:

- A credit from the general funds provided for the match of FFY 1993 PWS program grant (total of \$233,688).
- A credit from the additional general funds (i.e. overmatch) provided by the State for the PWS program grant in FFY 1993 (total of \$272,339).
- Current year general funds allocated to the PWS program, not used for match to the PWS program grant (total of \$225,123 in general funds provided during FFY 2014 not used for match); and
- Cash contributions in the form of income from fees received to perform analyses at the State laboratory for PWSs (fee amount received during SFY 2015 was \$1,405,364), for review of plans (\$205,818 received in SFY 2015), and for operator licenses (\$62,025 received in SFY 2015).

The total of State funding available for one-to-one match to the first \$1,234,500 was \$2,404,357. Similar totals are expected for the second amount, when it is expended in SFY 2016.

6. Local Assistance and Other State Programs (15%)

A. Land Acquisition For Source Water Protection

Funds potentially available for land acquisition were not used, being primarily used for drinking water facility loans. The present program intent is not to reserve funds for land acquisition under future grants.

B. Source Water Delineation and Assessment

Nebraska's Source Water Assessment Program (SWAP) was submitted to EPA Region VII in February 1999 and approved in October 1999. NDEQ is implementing the EPA approved program in cooperation with the NDHHS-DPH, NeRWA, the Natural Resources Districts, and numerous other stakeholders. All assessments were completed and distributed by August 2003.

Source Water and Wellhead Protection staff were funded with Clean Water Act Section 319 NonPoint Source Pollution funds and 15% DWSRF Set-Aside money. NDEQ staff continues to work with public water suppliers to develop protection actions for their drinking water supplies. Staff have updated Wellhead Protection Area maps (or adopted the acceptable work of others) and Watershed Delineation Area maps for Nebraska public water supplies. As of September 11, 2015, 109 PWSs have completed state-approved wellhead protection plans.

Beginning with FY 2003, approximately \$200,000 of the 15% DWSRF set-aside had been used annually for Source Water Protection granted projects. This amount was reduced to \$100,000 beginning in FFY 2007. These recipients included the communities of York, Bridgeport, Hebron, Coleridge, Gresham, and Wilber which received funding from both the 2014 and the 2015 Capitalization Grant. The total amount allotted came to \$208,654, the additional \$8,654 coming from previous projects where final costs came in under budget. To date, Source Water Protection funds have been distributed to 68 individual entities to complete 85 separate Source Water Protection projects throughout the state.

Unutilized DWSRF 15% set-a-side personnel funds will be spent on a vadose sampling project. Products of the proposed project include: an information interface for accessing nitrate results and sharing information, standardized protocol for collecting and analyzing cores used in estimating nitrate occurrences and transportation potential, and optical data and laboratory analysis which would permit identification of nitrate transport and potentially attenuation rates.

C. Planning Grants

The Planning Grant program used DWSRF local assistance set-aside funds to provide financial assistance to eligible municipalities for preliminary engineering reports for small public water supply system improvement projects that will seek funding through the Water Wastewater Advisory Committee (WWAC) Common Pre-application process. This financial assistance is provided to communities to identify capital improvement needs as well as increase their readiness to proceed in accomplishing these improvements.

Planning grants may be provided to PWSs serving 10,000 or fewer people. This includes any city, town, village, sanitary improvement district, natural resources district, or other public body created by or pursuant to state law having jurisdiction over a community PWS. Privately owned PWSs are not eligible for assistance.

Grants are provided for up to 90% of costs for eligible preliminary engineering report services, but cannot exceed \$15,000 per system. Grants for preliminary engineering report services for Regional PWSs remained at \$25,000. Four grant awards were made in SFY 2015 totaling \$70,000, all to high priority ranked communities, to address compliance with drinking water

standards. Since its inception in SFY 2002, the DWSRF has awarded planning grants to 115 communities for a total of \$1,450,320.

D. Security Grants

Letters were sent to all community PWSs with populations less than 10,000 notifying them of the security grant program in SFY 2015. The maximum grant award was \$10,000, with a 10% match required on all awards. The majority of that funding was awarded last fiscal year, which resulted in the following types of projects being installed:

• Alarms/Cameras	4
• Backup Power	12
• Buildings/Doors/etc.	8
• Fencing/Lighting	8
• Mapping	9
• Radios/Chlorinators/etc.	2
Total	41

E. Capacity Development

NDHHS-DPH continues to use this set-aside to fund one FTE staff. That position administers the Public Water System Capacity Development Program for NDHHS-DPH. The position includes oversight and on-going implementation of the State's Capacity Development strategy, writing and administering contracts which utilize funding from the DWSRF 2% set-aside monies, and writing and submitting all necessary reports and other documents that are required as part of this program. The program coordinator held 25 presentations involving asset management, capacity development, and drought mitigation for PWSs.

7. Match Discussion

The ratio for match purposes is theoretically 1/6 state, 5/6 federal, for an 83.33% ACH draw as a percentage of total disbursement. However, the use of set-asides makes the actual percentage fluctuate. Since set-asides are not matched directly the draws for set-asides must be matched by a later disbursement on a loan project. As of June 30, 2015 the ACH draw was \$143,163,577 and the match disbursement was \$31,605,937 for an ACH draw as a percentage of grant plus match disbursements ratio of 81.92%. This ratio indicates that the state has overmatched on this requirement.

For SFY 2015, match disbursements have been completed with 100% of the state match drawn first, prior to any request for associated capitalization grant loan funds.

B. GOALS AND ACCOMPLISHMENTS

1. Provisions of the Operating Agreement/Conditions of the Grant

The State of Nebraska has complied with the conditions of the DWSRF Operating Agreement and grant agreement as listed or as described more fully below:

- Establish state instrumentality and authority
- Comply with applicable state laws and procedures
- Review technical, financial, and managerial capacity of assistance recipients
- Establish DWSRF loan account, set-aside account, and DWSRF administration account

- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require DWSRF loan recipient accounting and auditing procedures
- Submit IUP and use all funds in accordance with the plan
- Comply with enforceable requirements of the Act
- Establish capacity development authority (See II.A.6.E)
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Develop and submit project priority ranking system
- Take payments based on payment schedule
- Deposit state matching funds
- Submit biennial report
- Annual audit
- DWNIMS, PBR, and FFATA data entry
- Assure that borrowers have dedicated source of repayment
- Use funds in timely and expeditious manner
- Ensure recipient compliance with applicable federal cross-cutting authorities
- Implement capacity development strategy (See II.A.5.B)
- Implement an operator certification program (See II.A.5.C)
- Conduct environmental reviews as listed below:

Environmental Reviews were conducted on eight PWS projects during SFY 2015. It was determined that no Environmental Impact Statements were necessary; instead Environmental Assessments were prepared and Finding of No Significant Impact Statements were issued for six projects: Central City, Fairbury, Falls City, Grant, Pleasanton, and Valley. Categorical Exclusions were issued for two projects: Holstein and Maxwell.

2. Short Term Goals and Accomplishments

Nine short-term goals were described in the SFY 2014 Intended Use Plan. The short-term goals support the implementation of the program. The DWSRF has made significant progress on most of its short-term goals. The DWSRF program continues to work with the systems identified by providing both technical and financial project support. The goals are listed and discussed as follows:

1. *Continue to attract customers to the program with short-term inducements and low interest rates.*

This goal was accomplished across the board for all projects funded in SFY 2015. With changes in market interest rates, program interest rates for all loans were closed at 2% during the fiscal year.

2. *To commit available loan funds to as many of the highest priority systems as possible in accordance with the IUP.*

There were nine loans closed during SFY 2015. Four of the loans were for high priority status projects. One of the loans addressed an enforcement action issued by NDHHS-DPH: Valley (Pines) – Volatile Organic Compounds (TCE).

3. *To assist systems which need to upgrade or construct new drinking water projects to attain and maintain compliance with the provisions of the Nebraska Safe Drinking Water Act and the regulations adopted thereunder.*

All but one of the systems that closed loans in SFY 2015 with the DWSRF met this goal. Descriptions of the individual projects are provided in Attachment 4.

4. To assist systems in meeting required drinking water quality standards. This includes giving priority to systems with compliance deadlines established by the NDHHS-DPH.

See responses to numbers 2 and 3 above for Bayard, Valley and Wood Lake. Administrative Orders have set deadlines agreed to between the communities and the NDHHS-DPH.

5. To work with the systems in need of technical, financial, and managerial assistance.

See responses to number 3. Further, NDHHS-DPH routinely provides technical, financial, and managerial assistance to PWSs. The MAP, as the 2% Team Contractor, provided technical, financial, and managerial assistance to small systems throughout Nebraska. The 10% set-aside was also used in part to fund the Water Security Coordinator's position in the NDHHS-DPH.

6. To address critical public health needs identified by the Public Water Supply Program administered by NDHHS-DPH.

See response to number 4 above for Bayard, Valley and Wood Lake.

7. To provide at least 15% of the DWSRF capitalization funds for loans to small systems with populations fewer than 10,000.

All systems that closed loans in SFY 2015 with the DWSRF, except for Kearney and South Sioux City, helped the program easily meet this requirement, exceeding 47% of funds to small systems.

8. To continue revisions of source water delineations and complete the transition from source water assessments to protection activities, utilizing the source water protection set-aside for granted projects.

NDEQ has drawn or adopted all community and non-community PWS Wellhead Protection Area maps and Watershed Delineation Area maps. Maps are updated and drawn as needed. A relational database is utilized to manage Wellhead and Source Water Protection data.

3. Long Term Goals and Accomplishments

Ten long-term goals were included in the SFY 2015 Intended Use Plan. The goals are listed and discussed as follows:

1. Management intends to administer the DWSRF fund so its revolving nature is assured in perpetuity in order to provide a source of continuing financial assistance to PWS for future drinking water needs. It is our intent to request EPA capitalization grants and obtain state match in a timely manner, and to allocate match and recycle fund to projects in a timely manner.

In establishing the financial structure of the program the program has tried to provide the lowest reasonable interest rate loans for projects that address human health problems. Reflective of recent economic concerns, rates were maintained at 2% across the board this fiscal year. This structure will ensure that the DWSRF will serve as a long-term source of funding by judicious use and management of its assets and by realizing an adequate rate of return with consideration for current inflation rates. Match disbursements have been completed with 100% of the state match drawn first, prior to any request for associated capitalization grant loan funds. Lastly, this past fiscal year, the program repaid all of the existing long-term debt previously issued for match, and provided cash for match to the FFY 15 grant. It is further anticipated that a cash match will be made for the next capitalization grant, which would further cement the long-term financial footing of the fund.

2. To survey systems for drinking water infrastructure needs in order for NDHHS-DPH to maintain a database for making program decisions, and to evaluate user charges on a regular basis.

An infrastructure needs survey is continuously updated so that program resources and funds may address the most significant public health and compliance issues facing the eligible PWSs. The survey is started in October and completed by December 31st annually. The program has and will continue to incorporate the most appropriate readiness to proceed criteria to match PWS funding needs in the State.

3. To protect the public health by maximizing funding towards high priority projects.

In SFY 2015, three of the nine loan agreements were made to either address or proactively mitigate future public health issues. In addition, through the WWAC monthly meetings, eligible projects are discussed by the participating State and Federal agencies and evaluated for the health-related issues being addressed, project alternatives, cost-effectiveness, and long-term solution for the water system. See Section C below for additional details.

4. To promote cost-effective water projects which consider several alternatives and include a cost-effectiveness analysis comparing the appropriateness of the alternatives.

This is accomplished through the program's engineering report requirements in Title 131 and the WWAC process described in the response to number 3 above. Further, the Interagency PER Template developed by the Federal agency leads of Nebraska's water infrastructure funding programs was adopted by the WWAC.

5. To ensure that facilities are physically separated, to the greatest extent possible, from water or land areas that contain high levels of materials that are harmful to humans.

Through the regulatory authority in Title 179 NAC 7 all wells, treatment, and storage facilities and other appurtenances necessary for the continued operation of a PWS must be located: (1) to protect against damage or breakdown as a result of floods, fire, earthquakes, or other natural disasters to the greatest extent possible, and (2) to prevent contamination of the drinking water by existing sources of pollution to the greatest extent possible. This applies to all projects funded through the DWSRF.

6. To maintain a program that will consider the long-term viability of existing and proposed PWSs.

NDHHS-DPH has had a Capacity Development Strategy program in effect since August 6, 2000, which assists public water systems in acquiring and maintaining technical, managerial, and financial capacity. Also see the Planning Grant program (under the 15% Set-Aside section) which provides funds for planning grant assistance through the DWSRF as a part of the capacity development strategy.

7. To provide loan assistance at the lowest reasonable interest rates.

See response to number 1 above.

8. Insuring the fund's purchasing power in perpetuity requires balancing the need for fund growth at the rate of inflation experienced in the construction industry, versus the desire to provide loans at low interest rates. The fund and loan interest rates and cost of borrowing the state match will be examined annually to evaluate the fund net growth and determine the reasonableness of loan interest rates. Management practices will be reviewed and modified annually to assist in achieving the growth goals.

See response to number 1 above. Projected market and inflation rates are continually monitored, and assessments made to likely events which could impact fund decisions. Please note that this was originally shown as a Short-Term goal in the IUP, but has been upgraded to a Long-Term goal.

9. To coordinate with the United States Department of Agriculture-Rural Development and the Nebraska Department of Economic Development-Community Development Block Grant Programs to provide affordable financing for public drinking water needs.

From its inception, Nebraska's DWSRF program has provided low-interest loans and some forgiveness each year of the program. With the continued mandatory subsidization requirement of not less than 20% up to 30% with the FFY 2014 and 2015 capitalization grants, the ability for the program to provide affordable financing continued to increase this past fiscal year. In addition, other agencies' participation in the WWAC include the Nebraska Department of Economic Development, which administers the Community Development Block Grant program, and the USDA-Rural Development, which administers the Business and Community Programs, providing loans and grants to non-profit organizations in rural areas. These programs have provided state and/or federal financial assistance to make drinking water infrastructure projects affordable in the State.

10. To progress toward incorporating source water protection best management practices into public water supply operations.

NDHHS-DPH conducts routine sanitary surveys of PWSs and NDEQ has implemented a wellhead protection program both of which assist in incorporating source water management concepts into the communities' water programs. The NDHHS-DPH priority ranking system prioritizes the systems to allow systems with the greatest needs to have first chance at the funding.

C. Funded Program

The Annual Report reflects the results and changes from the SFY 2015 Intended Use Plan approved by the Environmental Quality Council (EQC) on June 19, 2014. Provided at the end of Attachment 4 is a brief synopsis of the SFY 2015 Funding and Planning List communities that closed loans during the fiscal year. More detailed project information for the loans closed in SFY 2015 is provided in Attachment 4.

NDHHS-DPH works with all members of the WWAC to identify projects that are potentially ready to be funded and moving forward during the SFY. This approach was helpful for those systems that indicated that they were anticipating moving forward with a project during the state fiscal year. Below is a summary of the known status for each of the high priority projects for the systems that made contact with the NDHHS-DPH DWSRF Coordinator during the past fiscal year, starting first with the SFY 2015 Funding List communities that chose not to proceed with DWSRF funding assistance.

Funding List Projects

Aurora, City of – Will fund their new well and water main project through the DWSRF in SFY 2016.

Barneston, Village of – Choose to privately fund their water main project.

Cedar-Knox Rural Water District – This project has been placed on hold due to inadequate interest.

Cuming County RWD 1 – Choose to privately fund their new well project.

Falls City, City of – Will fund their new well and water treatment plant project through the DWSRF in SFY 2016.

Harbine, Village of – Will likely fund their new well privately.

Hartington, City of – Will fund their replacement meter project through the DWSRF in SFY 2016.

Kenesaw, Village of – Will fund their new water meter project through the DWSRF in SFY 2016.

Laurel, City of – Due to decreasing Selenium levels in their well, this project may not be constructed. If it is, it will be funded through the DWSRF.

Lincoln, City of – A timely environmental clearance could not be obtained, the City opted to privately fund this new collector well project.

Lodgepole, Village of – Their water meter replacement project was put on hold, as they have developed a Preliminary Engineering Report to address a recently issued Arsenic Administrative Order and that project may be funded through the USDA-RD.

Oshkosh, City of – Will fund their new well, storage and meter project through the DWSRF in SFY 2016.

Osmond, City of – Will fund their new well and meter project through the DWSRF in SFY 2016.

Otoe County RWD 1 – Choose to privately fund their tower repair project.

Phillips, Village of – Will fund their new well and water main project through the DWSRF in SFY 2016.

Pleasanton, Village of – Will fund their new well and water main project through the DWSRF in SFY 2016.

West Knox Rural Water District – Completing a Feasibility Study under the Bureau of Reclamation's Rural Water Supply program. They plan to petition Congress for a direct appropriation for their project. If successful, the DWSRF will provide the match amount in a loan from the program's repaid principal account.

Yutan, City of – Choose to privately fund their new well project.

Planning List Projects

Alliance, City of – Continues to monitor levels of Arsenic in its' wellfield supply. Voiced concerns about relying upon the DWSRF for funding assistance due to excessive program requirements.

Atlanta, Village of – Constructed a backup well that they privately funded.

Aurora, City of – Plans to construct a replacement well that will likely be funded by the DWSRF in SFY 2016.

Bruning, Village of – Constructed a replacement well that they privately funded.

Byron, Village of – Participating in the potential development of a regional water system with Chester and Hubbell.

Campbell, Village of – Received a planning grant for the development of a test hole.

Creston, Village of – Completed a Preliminary Engineering Report, is considering being part of regional water system.

Dwight, Village of – Received a planning grant for the development of a Preliminary Engineering Report.

Edgar, City of – Has submitted an engineering report to the WWAC for the construction of an Ion Exchange Treatment Plant.

Hastings, City of – Is planning to construct an Aquifer, Storage and Restoration project, which may begin in SFY 2016.

Humphrey, City of – Is planning to construct a treatment alternative to address their Arsenic and Selenium issues, which may begin in SFY 2016 and could be funded through the DWSRF.

Martinsburg, Village of – Monitoring of their supply detected levels of Uranium above the MCL, and the Village plans to revise their Preliminary Engineering Report for submission to the WWAC.

Milford, City of – Has submitted an engineering report to the WWAC for the construction of a replacement well.

Oconto, Village of – Is planning to construct a replacement well and distribution system improvements, which will be funded by the USDA-RD and CDBG programs.

Ohiova, Village of – Has submitted a revised engineering report to the WWAC for the construction of a replacement well and distribution system improvements.

Polk, Village of – Has submitted an engineering report to the WWAC for the construction of a new water tower and distribution system improvements.

Prosser, Village of – Is planning to construct point-of-use treatment that will be funded by the USDA-RD.

Riverdale, Village of – Is planning to construct a back-up well that may be funded through the DWSRF.

Staplehurst, Village of – Is planning to construct a replacement tower and distribution system improvements that may be funded by the USDA-RD.

Weeping Water, City of – Is planning to construct a new well that may be funded through the DWSRF.

Lindsay has completed their project through DWSRF funding, and was brought back into compliance with their enforcement action previously issued by NDHHS-DPH.

The communities of Adams, Brainard, Curtis, Dix, Edgar, Fairbury, Grant, Hubbell, Laurel, Ohiova, Osmond, Polk, Prosser, Staplehurst, Terrytown, and Weeping Water submitted preliminary engineering reports to NDHHS-DPH, for a review for potential funding assistance through the WWAC.

D. Program Changes Under Consideration

Changes under consideration include limiting forgiveness assistance to just those communities that are addressing public health needs as a part of their projects and providing forgiveness and/or grant assistance for rehabilitation of wells through innovative methods of sealing the annular space. The former is due to the anticipated decrease in capitalization grant funding projected for FFY 2016 and thereafter. The latter may occur in SFY 17 following interpretation of the on-going study by DHHS's Annular Seal Task Force, which may result in low-cost compliance for water well supplied public water systems. Lastly, to the existing administration fee charged on all loans, in SFY 16 that fee may be reduced for new loans to past DWSRF loan recipients.

**ATTACHMENT 1
LOAN AND INVESTMENT STATUS**

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311223	Adams		P	209,831.00	209,831.00	0.00	2.75	0.00		
D311151	Ainsworth		P	919,790.00	919,790.00	0.00	2.50	0.00		
D311493	Ainsworth		P	350,000.00	350,000.00	0.00	3.00	0.00		
D311001	Albion		P	492,950.00	492,950.00	0.00	3.00	0.00		
D311152	Albion			282,000.00	19,600.00	218,754.00	2.00	437,508.00		
D311224	Alda		P	697,000.00	697,000.00	0.00	2.00	0.00		
D311517	Alda	ARRA	F	150,878.00	22,279.93	128,598.07	2.00	257,196.14		
D311496	Alliance	ARRA	F	3,513,951.00	523,464.52	2,990,486.48	2.00	5,980,972.96		
D311511	Alliance		F	595,224.00	100,980.91	494,243.09	2.00	988,486.18		
D311393	Ansley		P	595,260.00	595,260.00	0.00	3.00	0.00		
D311225	Arapahoe		P	450,000.00	450,000.00	0.00	2.50	0.00		
D311003	Arlington		F	1,592,435.00	1,040,574.14	551,860.86	3.47	1,914,957.18		
D311219	Auburn		P	630,784.00	630,784.00	0.00	3.53	0.00		
D311499	Auburn	ARRA	F	4,501,502.00	318,554.22	4,182,947.78	2.30	9,620,779.89		
D311004	Aurora		P	300,000.00	300,000.00	0.00	2.80	0.00		
D311495	Aurora		P	226,733.00	226,733.00	0.00	3.00	0.00		
D311563	Aurora	GP11		260,000.00	5,500.00	188,414.00	2.00	376,828.00		
D311226	Bancroft		P	591,000.00	591,000.00	0.00	2.50	0.00		
D311227	Barneston		F	32,794.00	30,927.42	1,866.58	2.50	4,666.45		
D311091	Bassett		F	138,342.00	63,956.37	74,385.63	2.50	185,964.08		
D311005	Bayard	ARRA	F	112,065.00	21,435.80	90,629.20	2.00	181,258.40		
D311147	Beatrice		P	826,223.00	826,223.00	0.00	3.18	0.00		
D311006	Beaver Lake Association	UNPL	F	3,276,647.00	1,145,551.29	2,131,095.71	4.00	8,524,382.84		
D311389	Bee			247,311.00	0.00	92,704.00	2.00	185,408.00		
D311516	Bellwood	ARRA	F	142,924.00	17,607.99	125,316.01	2.00	250,632.02		
D311073	Benedict		F	455,000.00	33,611.79	421,388.21	3.42	1,441,147.68		
D311142	Bennet		P	216,310.00	216,310.00	0.00	3.00	0.00		
D311399	Bennet	ARRA	F	612,697.00	90,406.26	522,290.74	2.00	1,044,581.48		
D311228	Big Springs		P	636,000.00	636,000.00	0.00	2.50	0.00		
D311228	Big Springs Amd#1		P	215,000.00	215,000.00	0.00	3.00	0.00		
D311007	Blair		F	6,815,700.00	5,659,238.03	1,156,461.97	3.03	3,504,079.77		
D311530	Blair	GP10	F	2,794,587.00	33,618.30	2,760,968.70	2.25	6,212,179.58		
D311131	Bloomfield		P	203,361.00	203,361.00	0.00	3.00	0.00		
D311491	Bloomfield		P	174,822.00	174,822.00	0.00	2.75	0.00		
D311093	Bloomington		P	151,697.00	151,697.00	0.00	2.50	0.00		
D311094	Blue Hill		P	459,656.00	459,656.00	0.00	3.00	0.00		
D311132	Boyd Co. RWD No. 2		P	822,000.00	822,000.00	0.00	3.30	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311288	Bradshaw	ARRA	P	175,669.00	175,669.00	0.00	2.00	0.00		
D311081	Brady		F	365,547.00	110,002.70	255,544.30	3.30	843,296.19		
D311404	Bridgeport	ARRA	F	775,068.00	114,366.84	660,701.16	2.00	1,321,402.32		
D311529	Bridgeport		F	833,728.00	67,558.86	766,169.14	2.14	1,639,601.96		
D311405	Bristow		F	80,000.00	41,429.45	38,570.55	2.75	106,069.01		
D311008	Broadwater		P	79,000.00	79,000.00	0.00	3.00	0.00		
D311229	Broken Bow		F	1,822,222.00	250,941.60	1,571,280.40	2.62	4,116,754.65		
D311009	Bruning		F	483,571.00	357,574.71	125,996.29	3.03	381,768.76		
D311350	Bruno		P	164,100.00	164,100.00	0.00	2.50	0.00		
D311010	Brunswick		F	219,500.00	208,323.71	11,176.29	3.00	33,528.87		
D311561	Brunswick			141,600.00	1,600.00	80,058.00	2.00	160,116.00		
D311011	Butte		P	584,000.00	584,000.00	0.00	3.00	0.00		
D311549	Cairo			536,560.00	10,000.00	277,446.00	2.25	624,253.50		
D311456	Carroll	GP10		184,000.00	8,500.00	158,217.00	2.00	316,434.00		
D311159	Cedar-Knox (Lewis & Clark)		F	249,000.00	124,909.01	124,090.99	3.00	372,272.97		
D311524	Cedar-Knox (Lewis & Clark)		F	67,112.00	12,375.75	54,736.25	2.00	109,472.50		
D311012	Central City		F	387,572.00	146,966.50	240,605.50	2.75	661,665.13		
D311096	Ceresco		P	1,178,586.00	1,178,586.00	0.00	3.63	0.00		
D311013	Chadron		P	713,008.00	713,008.00	0.00	3.00	0.00		
D311294	Clarks		F	305,000.00	88,338.23	216,661.77	2.50	541,654.43		
D311509	Clarks		F	516,836.00	52,756.47	464,079.53	2.00	928,159.06		
D311163	Clay Center		P	521,158.00	521,158.00	0.00	3.00	0.00		
D311546	Cortland	GP10		1,670,358.00	17,500.00	1,534,807.00	2.55	3,913,757.85		
D311234	Cozad		P	1,142,471.00	1,142,471.00	0.00	2.75	0.00		
D311149	Crawford		P	668,700.00	668,700.00	0.00	3.00	0.00		
D311557	Creighton		F	754,298.00	15,451.66	738,846.34	2.29	1,691,958.12		
D311017	Culbertson		F	236,862.00	131,213.75	105,648.25	3.00	316,944.75		
D311018	Cuming Co. RWD No. 1		F	643,981.00	322,779.57	321,201.43	3.08	989,300.40		
D311457	Cuming Co. RWD No. 1		F	323,435.00	46,407.15	277,027.85	2.75	761,826.59		
D311506	Dalton	ARRA	F	197,024.00	29,072.31	167,951.69	2.00	335,903.38		
D311167	Davenport		P	440,000.00	440,000.00	0.00	3.40	0.00		
D311169	David City		F	626,435.00	300,915.53	325,519.47	2.51	817,053.87		
D311569	Daykin			520,000.00	0.00	75,848.00	2.00	151,696.00		
D311555	Denton		F	522,208.00	22,192.43	500,015.57	2.00	1,000,031.14		
D311102	DeWitt		P	650,000.00	650,000.00	0.00	2.50	0.00		
D311238	Dodge		F	56,156.00	26,681.90	29,474.10	2.51	73,979.99		
D311240	Dorchester	GP10		1,451,914.00	63,000.00	1,025,478.00	2.00	2,050,956.00		
D311021	Duncan		P	465,000.00	465,000.00	0.00	4.30	0.00		
D311243	Elba		P	341,250.00	341,250.00	0.00	2.50	0.00		
D311243	Elba Amd#1		P	360,750.00	360,750.00	0.00	3.00	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311571	Elgin			1,166,070.00	0.00	0.00	2.00	0.00		
D311022	Emerson		P	380,010.00	380,010.00	0.00	3.03	0.00		
D311302	Fairbury		F	694,436.00	283,160.84	411,275.16	2.50	1,028,187.90		
D311176	Fairmont		F	183,582.00	50,235.69	133,346.31	3.54	472,045.94		
D311024	Falls City		P	1,900,000.00	1,900,000.00	0.00	3.00	0.00		
D311536	Firth		F	326,301.00	62,798.97	263,502.03	2.00	527,004.06		
D311512	Friend	ARRA	F	208,508.00	45,255.02	163,252.98	2.00	326,505.96		
D311535	Fullerton		F	366,000.00	70,139.81	295,860.19	2.00	591,720.38		
D311575	Garland	FFATA		976,000.00	0.00	400,882.00	2.00	801,764.00		
D311026	Gering	BASE	F	445,110.00	65,401.31	379,708.69	3.24	1,230,256.16		
D311026	Gering AMD#1	ARRA	F	6,252,963.00	689,525.13	5,563,437.87	2.30	12,795,907.10		
D311245	Giltner		P	795,462.00	795,462.00	0.00	3.26	0.00		
D311027	Gothenburg		P	163,038.00	163,038.00	0.00	3.00	0.00		
D311214	Grafton		P	207,998.00	207,998.00	0.00	3.00	0.00		
D311104	Grant		F	273,674.00	240,426.48	33,247.52	3.00	99,742.56		
D311467	Gresham		P	88,119.00	88,119.00	0.00	2.00	0.00		
D311028	Gurley		F	173,280.00	63,163.24	110,116.76	3.74	411,836.68		
D311566	Haigler			168,000.00	0.00	114,653.00	2.00	229,306.00		
D311494	Hardy		P	224,000.00	224,000.00	0.00	3.00	0.00		
D311547	Hay Springs		F	245,667.00	14,169.17	231,497.83	2.50	578,744.58		
D311133	Hebron		P	688,640.00	688,640.00	0.00	3.00	0.00		
D311521	Hickman		F	2,196,778.00	229,222.69	1,967,555.31	2.00	3,935,110.62		
D311248	Holbrook		P	615,000.00	615,000.00	0.00	2.75	0.00		
D311031	Holdrege		P	277,480.00	277,480.00	0.00	3.50	0.00		
D311544	Holstein	GP10	F	216,097.00	27,459.08	188,637.92	2.00	377,275.84		
D311033	Hubbard		F	154,778.00	48,433.93	106,344.07	3.79	403,044.03		
D311109	Humboldt			2,056,400.00	84,100.00	1,811,965.00	2.30	4,167,519.50		
D311545	Humphrey			1,830,594.00	132,200.00	1,520,665.00	2.25	3,421,496.25		
D311067	Jackson		F	109,339.00	75,632.94	33,706.06	3.00	101,118.18		
D311034	Kearney		P	2,139,420.00	2,139,420.00	0.00	3.24	0.00		
D311282	Kearney		P	1,237,634.00	1,237,634.00	0.00	3.48	0.00		
D311398	Kearney		P	8,116,884.00	8,116,884.00	0.00	3.44	0.00		
D311540	Kearney		F	212,927.00	41,205.32	171,721.68	2.00	343,443.36		
D311579	Kearney	FFATA		2,000,000.00	0.00	0.00	2.00	0.00		
D311589	Kearney	FFATA		427,000.00	0.00	225,169.00	2.00	450,338.00		
D311079	Kennard		P	460,128.00	460,128.00	0.00	4.22	0.00		
D311184	Kimball		P	750,000.00	750,000.00	0.00	2.52	0.00		
D311504	Laurel	ARRA	F	357,266.00	66,574.74	290,691.26	2.00	581,382.52		
D311564	Leigh		F	257,268.00	10,779.19	246,488.81	2.00	492,977.62		
D311548	Lincoln	U/FFATA		15,000,000.00	818,300.00	13,986,706.00	2.25	31,470,088.50		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311570	Lindsay	GP11		430,348.00	0.00	417,046.00	2.00	834,092.00		
D311188	Louisville		F	843,275.00	259,844.99	583,430.01	3.50	2,042,005.04		
D311562	Loup City	GP10	F	149,137.00	9,531.29	139,605.71	2.00	279,211.42		
D311317	Lyons		P	695,000.00	695,000.00	0.00	2.50	0.00		
D311220	Madison Co. SID #3		P	491,843.00	491,843.00	0.00	3.51	0.00		
D311600	Maxwell			60,000.00	0.00	0.00	2.00	0.00		
D311189	Maywood		P	479,000.00	479,000.00	0.00	2.55	0.00		
D311039	McCook		F	9,922,000.00	2,939,259.45	6,982,740.55	2.80	19,551,673.54		
D311560	McCook	FFATA		1,669,448.00	52,000.00	1,223,870.00	2.00	2,447,740.00		
D311130	Metropolitan Utilities Distr.		F	755,593.00	689,679.55	65,913.45	3.00	197,740.35		
D311498	Metropolitan Utilities Distr.	U/ARRA	F	5,797,062.00	983,584.60	4,813,477.40	2.00	9,626,954.80		
D311256	Niobrara		F	175,000.00	83,351.14	91,648.86	3.00	274,946.58		
D311155	Norfolk		P	1,781,318.00	1,781,318.00	0.00	3.00	0.00		
D311515	North Loup	ARRA	F	156,283.00	29,942.16	126,340.84	2.00	252,681.68		
D311565	North Loup	FFATA		1,202,305.00	0.00	538,168.00	2.00	1,076,336.00		
D311042	North Platte		F	3,077,844.00	1,766,192.53	1,311,651.47	3.36	4,407,148.94		
D311322	North Platte		F	6,070,005.00	2,621,680.67	3,448,324.33	3.72	12,827,766.51		
D311078	Oakland		P	400,000.00	400,000.00	0.00	3.00	0.00		
D311503	Oakland		F	104,883.00	15,349.68	89,533.32	2.00	179,066.64		
D311138	Odell		F	103,293.00	57,320.76	45,972.24	3.03	139,295.89		
D311044	Ogallala	FFATA		2,175,295.00	0.00	1,358,876.00	2.00	2,717,752.00		
D311500	Oscelola	ARRA	F	270,772.00	51,890.42	218,881.58	2.00	437,763.16		
D311533	Oscelola		F	938,713.00	97,538.34	841,174.66	2.25	1,892,642.99		
D311198	Palisade		P	808,000.00	808,000.00	0.00	3.00	0.00		
D311080	Papio-Mo River NRD		P	338,800.00	338,800.00	0.00	4.00	0.00		
D311049	Paxton		P	1,131,000.00	1,131,000.00	0.00	3.00	0.00		
D311326	Pender		F	1,028,735.00	416,967.14	611,767.86	2.50	1,529,419.65		
D311505	Phillips	ARRA	F	166,643.00	31,935.26	134,707.74	2.00	269,415.48		
D311543	Pickrell		F	182,702.00	12,184.34	170,517.66	2.00	341,035.32		
D311532	Platte Center		F	505,371.00	62,054.00	443,317.00	2.25	997,463.25		
D311051	Plattsmouth		F	1,491,112.00	1,162,956.19	328,155.81	3.00	984,467.43		
D311261	Plattsmouth		P	296,733.00	296,733.00	0.00	3.45	0.00		
D311518	Plattsmouth		F	872,957.00	100,093.03	772,863.97	2.30	1,777,587.13		
D311513	Pleasant Dale	ARRA	F	106,126.00	22,695.93	83,430.07	2.00	166,860.14		
D311525	Ravenna	GP11/FFATA		2,312,480.00	44,500.00	2,103,250.00	2.00	4,206,500.00		
D311438	Republican City		F	1,057,060.00	974,675.08	82,384.92	3.00	247,154.76		
D311542	Rogers		F	77,280.00	11,332.89	65,947.11	2.00	131,894.22		
D311559	St. Helena		F	233,025.00	14,495.83	218,529.17	2.00	437,058.34		
D311218	St. Paul	ARRA	P	606,000.00	606,000.00	0.00	2.38	0.00		
D311053	Schuyler	ARRA	F	1,560,451.00	264,704.89	1,295,746.11	2.00	2,591,492.22		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311334	Scotia		P	467,415.00	467,415.00	0.00	2.57	0.00		
D311573	Scribner	FFATA		2,800,000.00	0.00	122,590.00	2.00	245,180.00		
D311501	Shelby	ARRA	F	177,707.00	30,115.27	147,591.73	2.00	295,183.46		
D311537	Shelby		F	1,023,041.00	490,201.56	532,839.44	2.00	1,065,678.88		
D311514	Shelton	GP11/FFATA	F	895,481.00	74,235.12	821,245.88	2.00	1,642,491.76		
D311056	Sidney		P	1,156,000.00	1,156,000.00	0.00	3.00	0.00		
D311351	Sidney		F	7,975,000.00	4,273,976.02	3,701,023.98	2.52	9,326,580.43		
D311057	So. Sioux City		F	267,732.00	207,364.31	60,367.69	3.00	181,103.07		
D311268	So. Sioux City		F	1,331,150.00	923,165.84	407,984.16	2.79	1,138,275.81		
D311584	So. Sioux City	FFATA		3,128,000.00	0.00	0.00	2.00	0.00		
D311139	Stamford		P	306,000.00	306,000.00	0.00	3.00	0.00		
D311391	Stamford		F	100,000.00	28,050.79	71,949.21	2.83	203,616.26		
D311058	Stanton		P	344,991.00	344,991.00	0.00	3.00	0.00		
D311059	Stanton Co. SID #1		F	353,805.00	159,993.74	193,811.26	4.00	775,245.04		
D311146	Stapleton		F	95,953.00	66,354.32	29,598.68	3.01	89,092.03		
D311060	Stratton		P	167,492.00	167,492.00	0.00	3.00	0.00		
D311336	Stratton		P	1,001,000.00	1,001,000.00	0.00	2.75	0.00		
D311539	Stromsburg		F	1,497,724.00	1,365,734.59	131,989.41	2.00	263,978.82		
D311502	Sutherland	ARRA	F	1,180,291.00	200,592.51	979,698.49	2.02	1,978,990.95		
D311089	Tecumseh		F	478,982.00	317,557.40	161,424.60	3.00	484,273.80		
D311077	Tekamah		F	1,247,818.00	625,433.07	622,384.93	3.00	1,867,154.79		
D311550	Terrytown	GP10		1,288,000.00	0.00	0.00	2.00	0.00		
D311590	Tobias			480,000.00	0.00	59,838.00	2.00	119,676.00		
D311068	Utica		P	458,699.00	458,699.00	0.00	3.00	0.00		
D311577	Utica			1,096,000.00	0.00	262,630.00	2.00	525,260.00		
D311126	Valentine		P	450,000.00	450,000.00	0.00	3.00	0.00		
D311593	Valley			581,834.00	0.00	541,095.00	2.00	1,082,190.00		
D311140	Waco		P	60,000.00	60,000.00	0.00	3.00	0.00		
D311522	Wahoo	ARRA	F	299,274.00	57,214.04	242,059.96	2.00	484,119.92		
D311275	Wakefield			960,000.00	0.00	751,374.00	2.00	1,502,748.00		
D311071	Waterloo		F	297,522.00	251,580.91	45,941.09	3.36	154,362.06		
D311375	Wauneta		F	262,004.00	20,962.46	241,041.54	2.11	508,597.65		
D311276	Wausa		F	289,083.00	137,635.82	151,447.18	3.00	454,341.54		
D311527	Wausa		F	260,814.00	26,445.76	234,368.24	2.23	522,641.18		
D311582	Waverly	U/FFATA		4,610,000.00	0.00	2,056,127.00	2.00	4,112,254.00		
D311519	Wayne	ARRA	F	762,414.00	129,405.77	633,008.23	2.00	1,266,016.46		
D311558	West Knox RWS-LNNRD	FFATA		886,054.00	5,000.00	119,666.00	2.50	299,165.00		
D311592	Wisner	FFATA		192,550.00	0.00	99,871.00	2.00	199,742.00		
D311583	Wood Lake			81,250.00	0.00	0.00	2.00	0.00		
D311066	Wood River		P	424,100.00	424,100.00	0.00	3.68	0.00		

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	INTEREST RATE	EARNING FACTOR	BLENDED LOAN RATE	FUND GROWTH RATE
D311497	Wymore	ARRA	F	1,489,829.00	285,116.51	1,204,712.49	2.00	2,409,424.98		
D311520	York	U/ARRA	F	2,334,605.00	444,459.61	1,890,145.39	2.00	3,780,290.78		
	TOTAL			204,739,459.00	87,272,318.39	98,206,194.61		234,458,542.58	2.387	2.387
	NOTE: 25 ARRA LOANS									

<u>PROJECT IDENTIFIER CODES:</u>	
AMERICAN RECOVERY AND REINVESTMENT ACT	ARRA
FEDERAL FUNDING ACCOUNTABILITY & TRANSPARENCY ACT	FFATA
GREEN PROJECT 2010	GP10
GREEN PROJECT 2011	GP11
UNPLEGED	UNPL
UNPLEGED ARRA	U/ARRA
UNPLEGED FFATA	U/FFATA

<u>STATUS CODES:</u>	
ACTIVE	
FINAL	F
PAID OFF	P

**ATTACHMENT 2
BINDING COMMITMENTS**

COMMUNITY NAME	PROJECT #D31	SMALL SYSTEM (<10,000)	FISCAL YEAR 2014				FISCAL YEAR 2015			
			1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
LINDSAY	1570	X	618,850							
HAIGLER	1566	X	210,000							
SCRIBNER	1573	X	3,500,000							
UTICA	1577	X		1,370,000						
WAKEFIELD	1275	X		1,200,000						
KEARNEY	1579					2,000,000				
MCCOOK	1560	X				2,086,810				
WAVERLY	1582	X				4,610,000				
OGALLALA	1044	X				2,719,119				
ADMINISTRATION										
KEARNEY	1589						427,000			
WISNER	1592	X					192,550			
SOUTH SIOUX CITY	1584							3,128,000		
BAYARD	1567	X						200,000		
TOBIAS	1590	X						600,000		
VALLEY	1593	X						775,000		
BAYARD AMD #1	1567	X							36,409	
GARLAND	1575	X							1,220,000	
MAXWELL	1600	X								60,000
CORTLAND AMD #1	1546	X								127,053
WOOD LAKE	1583	X								125,000
ADMINISTRATION										
(1) BINDING COMMITMENT TOTALS			4,328,850	2,570,000	-	11,415,929	619,550	4,703,000	1,256,409	312,053
(2) CUMUMLATIVE BINDNG COMMITMENTS			223,301,850	225,871,850	225,871,850	237,287,779	237,907,329	242,610,329	243,866,738	244,178,791
FY BINDING COMMITMENT TOTALS					FY2014:	18,314,779			FY2015:	6,891,012
(3) REQUIRED BINDING COMMITMENT*			8,934,500				7,719,680			
(4) CUMULATIVE REQUIRED AMOUNT			168,234,637	168,234,637	168,234,637	168,234,637	175,954,317	175,954,317	175,954,317	175,954,317
(5) BC AS % OF REQ'D BC AMOUNT			132.73	134.26	134.26	141.05	135.21	137.88	138.60	138.77
*100% OF CAPITALIZATION GRANT LESS SET-ASIDE PLUS MATCH, LAGGED BY 1 YEAR FROM PAYMENT										
NOTE: THE REQUIRED BINDING COMMITMENT WAS INCREASED BY \$3,654,323 TO ACCOUNT FOR A GRANT AMENDMENT ADDING BACK THE LAND ACQUISITION SET-ASIDE FOR FY97 THROUGH FY02, \$800,410 for FY03, and \$865,710 for FY06.										

ATTACHMENT 3

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

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

JULY 1, 2013 THROUGH JUNE 30, 2014

**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 21, 2015

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. The Drinking Water State Revolving Fund Act is set out at Neb. Rev. Stat. §§ 71-5314 to 71-5327 (Reissue 2009, Cum. Supp. 2014). The Program has been established pursuant to both the Federal Safe Drinking Water Act and State statutes to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned drinking water facilities. Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low-interest loans with some forgiveness 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 have terms of repayment between 5 and 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. Disadvantaged communities may choose to have up to 30 years to repay all loans.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1997. States are required to provide an additional 20% of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2014, the EPA had awarded \$148.5 million in capitalization grants to the State, plus \$19.5 million in American Recovery and Reinvestment Act (ARRA) funds. The award of this \$148.5 million required the State to contribute approximately \$29.7 million in matching funds. The State provided appropriations to contribute \$2.33 million of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds and the use of Administrative Cash Funds.

The Program is administered by the Agency and the Nebraska Department of Health and Human Services – Division of Public Health. The Agency's primary activities with regard to the Program include the making of loans for facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Agency and the Program's Intended Use Plan. The Nebraska Department of Health and Human Services – Division of Public Health sets the funding priorities.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

An exit conference was held March 31, 2015, with the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program (Program) to discuss the results of our examination. Those in attendance for the Program were:

<u>NAME</u>	<u>AGENCY</u>	<u>TITLE</u>
Martie Guthrie	DEQ	Budget Officer
Mary Sue Semerena	DHHS	Environmental Health Administrator II
Chin Chew	DHHS	Environmental Engineer Section Supervisor
Kris Young	DEQ	Accountant III
Dawn Martin	DEQ	State Revolving Fund (SRF) Assistant Coordinator
Marty Link	DEQ	Environmental Quality Associate Program Director – Water Quality Division
Kevin Stoner	DEQ	State Revolving Fund (SRF) Supervisor
Dennis Burling	DEQ	Information Technology (IT) Manager
Mary Brady	DEQ	State Revolving Fund (SRF) – Federal Aid Administrator II
Pat Rice	DEQ	Assistant Director
John R. Danforth	DEQ	Environmental Assistant Coordinator
Jim Macy	DEQ	Director
Tom Lamberson	DEQ	Deputy Director
Felix Davidson	Governor’s Office	Chief Operating Officer
Jim Novotny	DEQ	Accountant III
Steve McNulty	DHHS	Environmental Engineer II
Garet Buller	DHHS	Internal Audit Administrator
Curtis Youngman	DAS	State Accounting
Mark Herman	DEQ	Federal Aid Administrator II

Agencies

DAS – Department of Administrative Services

DEQ – Department of Environmental Quality

DHHS – Department of Health and Human Services

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

SUMMARY OF COMMENT

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

1. ***Technical and Managerial Capabilities:*** Documentation was not adequate to determine that the Technical and Managerial Capabilities were appropriately assessed.

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
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

1. **Technical and Managerial Capabilities**

The Nebraska Department of Environmental Quality (NDEQ) operates a direct loan program, whereby loans are made to communities as owners of public drinking water systems. Loan funds are disbursed to the local communities as they expend funds for the purposes of the loan. The Program loans are funded from Federal capitalization grants, State match funding, and the Drinking Water State Revolving Fund (DWSRF). The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. An agreement between NDEQ and the Nebraska Department of Health and Human Services (NDHHS), effective October 30, 1997, as amended April 22, 1999, defined the authority of the two agencies in administering the program. Through this agreement, NDEQ and NDHHS jointly administer certain provisions of the Drinking Water Revolving Fund Act.

Neb. Rev. Stat. § 71-5324 (Reissue 2009) provides, in part:

(1) All loans made under the Drinking Water State Revolving Fund Act shall be made only to owners of public water systems that:

(a) Meet the requirements of financial, technical, and managerial capability set by the department;

40 CFR § 35.3520(c) (July 1, 2013) states, in part:

In addition to costs needed for the project itself, the following project-related costs are eligible for assistance from the Fund . . . (3) Costs for restructuring systems that are in significant noncompliance with any national primary drinking water regulation or variance or that lack the technical, financial, and managerial capability to ensure compliance with the requirements of the Act, unless the systems are ineligible under paragraph (d)(2) or (d)(3) of this section.

40 CFR § 35.3520(d) adds the following:

Assistance from the Fund may not be provided to . . . (2) Systems that lack the technical, financial, and managerial capability to ensure compliance with the requirements of the Act, unless the assistance will ensure compliance and the owners or operators of the systems agree to undertake feasible and appropriate changes in operations to ensure compliance over the long-term. (3) Systems that are in significant noncompliance with any national primary drinking water regulation or variance, unless: (i) The purpose of the assistance is to address the cause of the significant noncompliance and will ensure that the systems return to compliance; or (ii) The purpose of the assistance is unrelated to the cause of the significant noncompliance and the systems are on enforcement schedules (for maximum contaminant level and treatment technique violations) or have compliance plans (for monitoring and reporting violations) to return to compliance.

Nebraska Health and Human Services Regulation and Licensure Nebraska Administrative Code (NAC) Title 179-Public Water Systems – Chapter 22 – Operation and Maintenance of Community and Nontransient Non-Community Public Water Systems, Section 22-001 states, in relevant part:

These regulations establish minimum requirements for the operation and maintenance of existing community and non-transient non-community (NTNC) public water systems. The authority is found in Neb. Rev. Stat. §§ 71-5301 to 71-5313.

A good internal control plan requires the assessment of the technical and managerial capabilities of communities receiving DWSRF project funds be adequately documented.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION
(Continued)

1. Technical and Managerial Capabilities (Continued)

During testing of three DWSRF loan files, we noted there was inadequate documentation in the loan files to determine whether or not the technical and managerial capabilities of communities were appropriately assessed. In addition, NDEQ and NDHHS did not have documented policies/criteria to measure the assessment of the technical and managerial capabilities of a community.

Based on discussion with NDEQ and NDHHS, it was noted the communities' technical and managerial capabilities are documented through Routine Sanitary Surveys (RSS) and Assessments in accordance with Title 179 NAC 22. Those sanitary surveys of community public water systems are conducted on a three-year basis by NDHHS. They are done for all community public water systems, and the rotating review is tracked in NDHHS' Safe Drinking Water Information System (SDWIS) database.

In addition, NDHHS noted an assessment of the technical and managerial capabilities of a community is not required prior to agreement of a loan, because ensuring those capabilities is a process rather than singular event that is documented. NDHHS also noted that 40 CFR § 35.3520(d)(2) requires a determination of technical and managerial capability to ensure compliance "unless the assistance will ensure compliance and the owners or operators of the systems agree to undertake feasible and appropriate changes in operations to ensure compliance over the long-term." This language is included in the loan agreements between NDEQ and the municipalities. NDHHS believes the language presented in the covenant, in conjunction with the NDHHS RSS and Assessment process, provides proper documentation that the requirements of 40 CFR Section 35.3520 and § 71-5324 have been met.

The Auditor of Public Accounts (APA) believes the process, as explained above, does provide some evidence that NDHHS is assessing the technical and managerial capabilities in compliance with 40 CFR Section 35.3520 and § 71-5324; however, there was little documentation in the loan files, for those loans tested that brought this overall process together, to document clearly that the communities' technical and managerial capabilities were assessed with regard to the loan being made prior to the approval of the Drinking Water Loan for the community project.

When there are not clearly developed policies/criteria to assess the technical and managerial capabilities of communities for loan eligibility, and that assessment is not well documented, there is a greater risk that the technical and managerial capabilities of communities will not be appropriately assessed prior to the approval of the loan agreement.

We recommend NDEQ and NDHHS develop policies/criteria to assess the technical and managerial capabilities of communities and document that assessment within the DWSRF loan files before a loan is finalized.

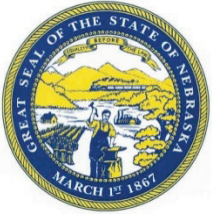
NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION
(Concluded)

1. Technical and Managerial Capabilities (Concluded)

Management's Response: The U.S. Environmental Protection Agency has provided written notification that Nebraska's DWSRF is in compliance with the Technical, Financial and Managerial (TFM) requirements of 40 CFR § 35.3520 (c) and (d). Thus the requirements of Neb. Rev. Stat. §71-5324 have also been met, as the requirements established through the DHHS Capacity Development stakeholder process are the same as noted in the CFR.

DHHS will copy the results of the most recent Routine Sanitary Survey into future loan files at the time of, and thus the TFM capabilities referenced therein during, the drafting of the environmental project clearance. Copying the survey results will be done to document the likely start of the TFM capability assessment process prior to a loan closing. Section (d)(2) of the noted CFR allows the program to rely upon the existing DWSRF Capacity Development loan covenant to require that all loan recipients with populations of 10,000 or less complete an Initial, and if necessary, a Final TFM Assessment by the DHHS. That assessment process will continue to ensure that TFM capabilities of Public Water Systems meet the requirements of the Safe Drinking Water Act. Assessment(s) will also be uploaded to the project file. Lastly, the assessment form has been modified to provide documentation they have been reviewed and approved by the DHHS Capacity Development Coordinator and Field Services Program Manager, respectively, for the above noted requirements.



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING 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 – Drinking Water State Revolving Fund Program, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Nebraska Department of Environmental Quality – Drinking 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 – Drinking Water State Revolving Fund Program, as of June 30, 2014, 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 – Drinking 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 – Drinking 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, 2014, 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 13 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, which 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 10, 2015, on our consideration of the Nebraska Department of Environmental Quality – Drinking 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, 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 – Drinking Water State Revolving Fund Program's internal control over financial reporting and compliance.

Regulatory Requirements

In accordance with the *June 30, 2013 Compliance Supplement—U.S. Environmental Protection Agency Part IV as it pertains to Capitalization Grants for Drinking Water State Revolving Fund Programs*, we have also issued our report dated April 10, 2015, on our consideration of the Nebraska Department of Environmental Quality – Drinking 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 10, 2015



Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Environmental Quality (Agency) – Drinking 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, 2014. 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 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 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, 2014, the net position of the Program increased by 7.4%. Operating revenues for the Program decreased by 0.3%, while operating expenses increased by 11.4%.

NET POSITION

	2014	2013 (As Restated)	% Change
Current Assets	\$ 65,699,956	\$ 60,155,334	9.2%
Noncurrent Assets	89,104,973	85,238,213	4.5%
Total Assets	154,804,929	145,393,547	6.5%
Current Liabilities	1,375,754	1,367,728	.6%
Noncurrent Liabilities	4,804,257	5,584,055	-14.0%
Total Liabilities	6,180,011	6,951,783	-11.1%
Net Position:			
Net Investments in Capital Assets	21,148	-	100%
Restricted	1,019,143	1,019,143	0%
Unrestricted	147,584,627	137,422,621	7.4%
Total Net Position	\$ 148,624,918	\$ 138,441,764	7.4%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CHANGES IN NET POSITION

	2014	2013 (As Restated)	% Change
Loan Fees Administration	\$974,841	\$927,572	5.1%
Interest	3,696,570	3,757,905	-1.6%
Fines, Forfeits & Penalties	-	-	
Total Operating Revenues	4,671,411	4,685,477	-0.3%
Administration & Set-Asides	2,618,967	2,279,006	14.9%
Loan Forgiveness	1,570,078	1,483,094	5.9%
Total Operating Expenses	4,189,045	3,762,100	11.4%
Operating Income (Loss)	482,366	923,377	-47.8%
Capital Contributions Federal Grants	9,983,986	9,711,494	2.8%
Capital Contributions ARRA Grants	-	346,857	-100.0%
Interest Expenses on Bonds	(283,198)	(319,711)	-11.4%
Net Nonoperating Revenue (Expense)	9,700,788	9,738,640	-.4%
Change in Net Position	10,183,154	10,662,017	-4.5%
Beginning Net Position July 1	138,441,764	127,779,747	8.3%
Ending Net Position June 30	148,624,918	\$138,441,764	7.4%

The most significant changes from the fiscal year ended June 30, 2013, to the fiscal year ended June 30, 2014, were the Administration and Set-Asides and Loan Forgiveness balances. Administrative and Set-Aside expenses increased from last fiscal year, particularly in the 10% Public Water Supply System set-a-side. This is a set-a-side utilized by the Department of Health and Human Services for administration of the State Public Water System Supervision program. Funds are utilized from various sources for this purpose. One source may be more fully utilized in one fiscal year over another. Loan Forgiveness also increased, which was a result of the types and make-up of loans paid out during the year. Forgiveness dollars were awarded per grant requirements but were not necessarily paid out on an annual basis. Due to several bond redemptions in previous years, as well as early loan pay-offs in previous and current years, the cash balance has increased significantly. This has resulted in a higher ending Net Position for the program.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Federal funds 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.

ARRA Grant funds were finalized and drawn in full during fiscal year 2013. Therefore, there was no ARRA-specific activity that occurred during fiscal year 2014.

ECONOMIC OUTLOOK

Nebraska's economy has been affected by the current national economic decline in recent years; however, net State General Fund revenue collections have been 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. As of the fiscal year ended June 30, 2014, the Program had received \$19,500,000 in ARRA grant funds. Approximately half of those funds were provided as principal forgiveness to communities. The ARRA funding did not require a State match. The ARRA grant has been fully utilized and closed by the end of fiscal year 2014.

DEBT ADMINISTRATION

Long-Term Debt

The Drinking Water State Revolving Fund had long-term debt activity during the fiscal year included above in the line titled Noncurrent Liabilities in the Net Position section. See the Notes to the Financial Statements for more detailed information on the Bonds Payable, which represents the fund's long-term debt activity for the year, as well as the fund's short-term debt activity that is new for this fiscal year.

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

LGTS is a comprehensive software application developed by Northbridge Environmental, which is designed for Nebraska's State Revolving Fund (SRF) managers and staff to track and manage all aspects of their Clean and Drinking Water SRF programs from project loan application to final repayment, as well as tracking all capital contributions, set-aside spending, and bond issuance and repayment.

The software was developed to address the data management needs for all of the steps in the SRF management process, including priority list development, facility location and identification, engineering review and milestone tracking, inspections, contacts, contract approvals and change orders, detailed payment request processing, project spending forecasts, encumbrances, funding draws and transfers, disbursements, amortization schedule creation and management, billing, repayment processing, fund deposits, and tracking of repaid funds by their original source. The software also contains a general ledger that each state can customize to match existing accounting systems and create trial balances, financial statements, and related financial schedules.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

LGTS has built-in, role-based security that requires users to log in each time they open the program. This security system is based on defined roles that each user is playing in the program. Security roles limit users to performing certain functions.

Historical data is extracted from spreadsheets or other data systems to load LGTS with data, test the validity of the data, and ensure that LGTS can be used effectively. This task is handled by a combination of staff efforts to assemble existing data sources and outside help to ensure that the data is used properly. This process usually yields a dual benefit of having a system with clean data and providing a quality assurance check of the many transactions that have occurred years ago and often by a number of staff members.

Nebraska's State Revolving Fund programs have begun implementation of the LGTS system. During fiscal year 2014, planning of the implementation phases, business rules, and hardware/software installations occurred. Beginning in fiscal year 2015, the system will be used concurrently with existing systems to create a basis for reliability and consistency. Once dependable, reconciled results have been established, the existing internal system will be discontinued, and LGTS will become the sole system for use within the SRF program alongside the State Accounting system.

Contract costs for the purchase and implementation of the LGTS system have been handled through the existing Northbridge contract with Federal EPA procurement. Therefore, expenditures are withheld as an "in-kind" deduction to the total annual DWSRF grant, awarded to the program each year. Federal EPA staff negotiate, monitor, and manage the Northbridge contract for LGTS.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
JUNE 30, 2014

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents:	
Cash in State Treasury (Note 2)	\$ 48,153,803
Amounts Held by Trustee (Note 2)	2,965,883
Amounts Held by Trustee - Restricted (Note 2)	500,121
Investments:	
Amounts Held by Trustee (Note 2)	6,494,846
Amounts Held by Trustee - Restricted (Note 2)	536,935
Due from Contractor	42,720
Due from Federal Government	462,331
Interest Receivable	83,253
Loans Receivable (Note 3)	6,460,064
TOTAL CURRENT ASSETS	65,699,956
NON-CURRENT ASSETS:	
Loans Receivable (Note 3)	89,083,825
Capital Assets, Net (Note 4)	21,148
TOTAL NON-CURRENT ASSETS	89,104,973
TOTAL ASSETS	\$ 154,804,929
 LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable & Accrued Liabilities	\$ 72,158
Due to Grant Recipients (Note 1)	404,866
Compensated Absences (Note 6)	1,449
Accrued Bond Interest Payable	117,281
Bonds Payable (Note 5)	780,000
TOTAL CURRENT LIABILITIES	1,375,754
NON-CURRENT LIABILITIES:	
Compensated Absences (Note 6)	19,257
Bonds Payable (Note 5)	4,785,000
TOTAL NON-CURRENT LIABILITIES	4,804,257
TOTAL LIABILITIES	6,180,011
 NET POSITION	
Net Investment in Capital Assets	21,148
Restricted - Expendable for Bond Payments	1,019,143
Unrestricted	147,584,627
TOTAL NET POSITION	148,624,918
TOTAL LIABILITIES AND NET POSITION	\$ 154,804,929

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Year Ended June 30, 2014

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	\$ 974,841
Interest on Loans	2,350,321
Interest on Fund Balance - Trustee	482,696
Interest on Fund Balance - State Operating Investment Pool (Note 9)	863,553
TOTAL OPERATING REVENUES	4,671,411
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	428,273
15% Source Water Assessment Program (Note 10)	668,084
2% Technical Assistance to Small Systems (Note 10)	142,173
10% Public Water Supply System (Note 10)	1,380,437
Loan Forgiveness (Note 10)	1,570,078
TOTAL OPERATING EXPENSES	4,189,045
OPERATING INCOME	482,366
NONOPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	9,969,280
Capital Contributions - Federal Grants - Capital Assets	14,706
Interest Expense - State Match Bonds	(236,906)
Interest Expense on Bonds Payable	(9,096)
Cost of Bond Issuance	(37,196)
NET NONOPERATING REVENUE (EXPENSE)	9,700,788
CHANGE IN NET POSITION	10,183,154
TOTAL NET POSITION, BEGINNING OF YEAR - As restated (Note 13)	138,441,764
TOTAL NET POSITION, END OF YEAR	\$ 148,624,918

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 13,659,769
Interest on Investments	1,332,511
Payments to Borrowers	(12,016,791)
Payments for Administration	(423,430)
Payments for 15% Source Water Assessment Program	(682,193)
Payments for 2% Technical Assistance to Small Systems	(126,846)
Payments for 10% Public Water Supply System	(1,618,936)
Payments for Loan Forgiveness	(1,386,843)
NET CASH USED BY OPERATING ACTIVITIES	(1,262,759)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	9,953,279
Receipts from Bond Issue	1,685,000
Bond Principal Payments	(2,435,000)
Bond Interest Payments	(261,291)
Payment for Bond Issuance Costs	(37,196)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	8,904,792
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Sales	1,620,055
Purchase of Investments	(1,089,186)
NET CASH FROM INVESTING ACTIVITIES	530,869
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Contributions	14,706
Purchase of Capital Assets	(21,148)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(6,442)
Increase in Cash and Cash Equivalents	8,166,460
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR - As restated (Note 13)	43,453,347
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 51,619,807
RECONCILIATION OF OPERATING INCOME	
TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income	\$ 482,366
ADJUSTMENTS TO RECONCILE OPERATING INCOME	
TO NET CASH USED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(1,682,184)
(Increase)/Decrease in Interest Receivable	(13,737)
(Increase)/Decrease in Due from Contractor	(42,720)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(189,936)
Increase/(Decrease) in Compensated Absences	217
Increase/(Decrease) in Due to Grant Recipients	183,235
NET CASH USED BY OPERATING ACTIVITIES	\$ (1,262,759)

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Agency) – Drinking 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) and the Trustee (Wells Fargo Bank) for the State match bond accounts.

B. Reporting Entity

The Program is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act of the State of Nebraska. The 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 Environment Quality – Drinking 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
DRINKING 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. The State accounting system includes the following Program funds, as identified in the Drinking Water State Revolving Fund Act:

- Drinking Water Facilities Funds – General Fund 10000; Federal Funds 48416, 48417, and 48418; and Bond Funds 68480, 68481, 68482, 68483, 68484, 68485, and 68486.
- Drinking Water Administration Fund – Cash Fund 28630

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 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 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 and Bond Trustee Investments

Cash and Cash Equivalents – Cash and cash equivalents primarily consist of cash in the State Treasury. This includes cash in bank accounts and petty cash, 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, 2014, 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.

Money Market Funds held by Bond Trustee are also considered cash equivalents due to their liquid nature.

Bond Trustee Investments – The investments held by the Bond Trustee consists of CDC Funding Corporation Guaranteed Investment Contracts (GICs) and are recorded at carrying value.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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 2.0% to 4.0%, and the terms could be 5 to 20 years. Disadvantaged communities may have up to 30 years to repay.

The Program loans are funded from Federal capitalization grants, State match funding, and the Drinking Water State Revolving Fund. The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. Reimbursements to communities are paid 100% from State matching funds until they have been exhausted, and then from Federal capitalization grant funds or Drinking Water State Revolving funds. The Drinking Water State Revolving Fund is financed through principal repayments plus interest earnings becoming available to finance new projects, allowing the funds to "revolve" over time.

The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2014, which is collectible in fiscal year 2015. Loans receivable that were paid in full, prior to their due date, as of August 31, 2014, were included in the current loans receivable balance as opposed to the long-term 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. Restricted Net Position

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources, as they are needed. Net position is reported as restricted when resources are held in a separate account that can be used to pay debt principal and interest only and cannot be used to pay other current liabilities, as required by the bond agreement.

H. 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

I. 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.

J. Due to Grant Recipients

Planning Grants for Preliminary Engineering Reviews are awarded through the Federal Capitalization Grant 15% set-aside funds. The Program awards Planning Grants to communities with populations below 10,000 where the Public Water System is operated by a political subdivision. Available grants are given upon evidence that the eligible Public Water System has entered into a contract with a professional engineer to develop a preliminary engineering report. Planning Grants are intended to provide financial assistance to Public Water Systems for projects seeking funding through the Water Wastewater Advisory Committee common pre-application process. The grant covers 90% of the preliminary engineering report and other eligible costs and will require 10% matching funds from the Public Water System.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Source Water Protection Grants are also awarded through the Federal Capitalization Grant 15% set-aside funds. They are available for proactive projects geared toward protecting Nebraska's drinking water supplies and will address drinking water quality, quantity, security, and/or education. Eligible applicants are political subdivisions that operate a Public Water System serving a population of 10,000 or fewer.

The Program may choose to provide additional subsidization for municipalities in the form of loan forgiveness. Forgiveness funds will be targeted primarily to the highest ranked eligible projects on the Priority Funding Lists, those that address public health needs, or those that have the components to meet Green Project Reserve guidelines. 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 Planning Grants, Source Water Protection Grants, and Loan Forgiveness awards, after submitting proof of payment to its vendors, the municipality is reimbursed for its 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.

K. 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 and loan forgiveness.

L. Capital Assets

The Drinking Water SRF program has only one Capital Asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Agency began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and is anticipating this phase to be completed during the fiscal year ended June 30, 2016. The LGTS software is considered an Intangible Capital Asset, and the Agency follows the capitalization policy set forth by the State of Nebraska for Intangible Capital Assets, which requires capitalization of such assets when the cost of such asset is in excess of

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

\$100,000 and has an expected useful life of greater than one year. The LGTS software has an estimated useful life of seven years. Depreciation/amortization will begin upon completion of the development phase and the software being put into production, and it will be computed using the straight-line method over the estimated useful life of the asset.

2. Cash in State Treasury and Amounts Held by Bond Trustee

Cash in State Treasury. The 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, 2014. 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 2014. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Bond Trustee. The Nebraska Investment Finance Authority (NIFA) (the "Issuer") issues revenue bonds, the proceeds of which are used by the Agency to provide the 20% match requirements for the Agency's Federal Capitalization Grants (See Note 5, Bonds Payable, for more details on these bonds). Wells Fargo Bank, N.A. (Trustee), as Trustee, establishes the appropriate accounts and invests the monies in accordance with the Master Trust Indenture dated June 1, 2000. At June 30, 2014, the amount held by the Trustee was \$10,497,785. The amount invested in Money Market Funds of \$3,466,004 was considered cash and cash equivalents and was stated at fair value. The amount invested in Guaranteed Investment Contracts (GICs) in the amount of \$7,031,781 are recorded at carrying value. The amount held by the Trustee consisted of the following:

	<u>Fair Value</u>
Money Market Fund	\$ 2,965,883
Money Market Fund (Restricted)	500,121
GICs in CDC Funding Corp.	6,494,846
GICs in CDC Funding Corp.(Restricted)	536,935
TOTAL	<u><u>\$ 10,497,785</u></u>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Cash in State Treasury and Amounts Held by Trustee (Continued)

The amounts shown as money market Funds above are deposits, as defined by GASB. As such, those deposits have custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Program's deposits may be lost. Of the \$3,466,004 in deposits held by the Trustee, all were uninsured and uncollateralized at the end of the fiscal year ended June 30, 2014, and in varying amounts during the year and, thus, exposed to custodial credit risk. The Program does not have a custodial credit risk policy for deposits.

The Program monies identified in this section are held and invested by the Trustee in its capacity as trustee for the bonds, as specified in the Master Trust Indenture, Section 1.01, dated as of June 1, 2000. That document defines "Investment Obligations" as:

- (a) *direct obligations of, or obligations the prompt payment of principal and interest on which are fully guaranteed by, the United States of America;*
- (b) *bonds, debentures, notes or other evidences of indebtedness issued or fully insured or guaranteed by any agency or instrumentality of the United States of America which is backed by the full faith and credit of the United States of America;*
- (c) *interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any Depository (including the Trustee), provided that such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (a) to (b), inclusive, of this definition, or a combination thereof;*
- (d) *money market funds or similar funds which invest exclusively in obligations described in clause (a), (b) or (e) of this definition, or a combination thereof;*
- (e) *bonds, debentures, notes or other evidences of indebtedness issued by any state of the United States of America or any political subdivision thereof or any public authority or body or instrumentality thereof which constitute obligations described in Section 103(a) of the Code which have a fixed parvalue and a fixed amount due at maturity and on call dates and are either rated "MIG 1" by Moody's and rated "SP-1+" by Standard & Poor's for short-term obligations or rated no lower than the rating on the Outstanding Bonds by Standard & Poor's and by Moody's;*
- (f) *any repurchase agreement or similar financial transaction with a national banking association (including the Trustee), a bank or trust company organized under the laws of any state, or a government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York or other corporation, association or entity which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds, which agreement is secured by a perfected security interest in any one or more of the securities described in clause (a) or (b) and which have an aggregate market value at least equal to the amount invested;*

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Cash in State Treasury and Amounts Held by Trustee (Concluded)

- (g) *investment contracts issued, secured or guaranteed by a corporation (or its guarantor), a national banking association or a state banking association which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds, or by a foreign bank or a United States branch or agency of a foreign bank, which foreign bank consents to in personam jurisdiction and which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds;*
or
- (h) *obligations of an insurance company which has a long-term debt rating by Standard & Poor's and Moody's no lower than the rating on the Outstanding Bonds.*

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. For the investments held by the Trustee, the program does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. At June 30, 2014, the amounts held by the Trustee had the following investments and maturities in years: Money Market funds do not have a maturity. The CDC Funding Corp. GIC investments have a maturity date of July 1, 2015.

The amounts held by the Trustee in GICs were investments, as defined by GASB. The Trustee, in accordance with the Series 2000A Supplemental Bond Indenture, invests funds in a private debt obligations fund, which is considered a debt security. This debt security has the following risks:

- Credit Risk – Credit risk is a risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill an obligation and is commonly expressed in terms of the credit quality rating issued by a national rating organization. The CDC Funding Corporation GIC was rated A-1 by Standard & Poor's Rating Group.
- Custodial Credit Risk of Investments – Custodial credit risk of investments is the risk that, in the event of the failure of a counterparty, the Program will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. The GIC fund held by the Trustee was uninsured and held by and in the name of the Trustee, not in the name of the Program.
- Concentration of Credit Risk – When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. GASB has adopted a principle that governments should provide note disclosure when 5% of the total government investments are concentrated in any one issuer. The Program had 67% of its total investments in the GIC fund.

The Program did not have a custodial credit risk policy for debt securities.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Loans Receivable

As of June 30, 2014, the Program had 104 outstanding community loans that totaled \$95,543,889. The outstanding balances of the 10 communities with the largest loan balances, which represent 56.0% of the total loans, were as follows:

Community	Outstanding Balance
Lincoln	\$ 11,825,609
McCook	7,224,194
Gering	6,120,631
North Platte	5,221,224
Metropolitan Utilities District	5,195,475
Auburn	4,182,948
Sidney	4,178,747
Blair	3,917,431
Alliance	3,484,730
Beaver Lake Association	2,131,096
TOTAL	\$ 53,482,085

4. Capital Assets

The Drinking Water SRF capital assets activity for the year ended June 30, 2014, was:

	Beginning Balance	Increases	Decreases	Ending Balance
Software Development In-Progress				
Loans and Grants Tracking System (LGTS)	\$ -	\$ 21,148	\$ -	\$ 21,148

5. Bonds Payable

The State has entered into a special financing arrangement with NIFA, an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues the bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Bonds Payable (Concluded)

Short-Term Bonds: During the fiscal year, the Program issued Series 2013 short-term revenue bonds to meet the requirement of matching each capitalization grant with 20% of non-Federal funds. Bond Series 2013 was retired during the fiscal year ended June 30, 2014. Bonds Payable activity for fiscal year 2014 on the short-term bonds was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	\$ -	\$ 1,685,000	\$ 1,685,000	\$ -

Long-Term Bonds: The Series 2000A, 2008A, and 2010A

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Bonds Payable	\$ 6,315,000	\$ -	\$ 750,000	\$ 5,565,000	\$ 780,000

Bonds Payable at June 30, 2014, consisted of the following:

Series	Original Issue	Retirements	2014 Balance	Interest Rate	Final Maturity Date
2000A	\$ 5,530,000	\$ 4,065,000	\$ 1,465,000	4.8-5.7%	July 1, 2015
2008A	1,965,000	580,000	1,385,000	2.75-5.0%	Jan. 1, 2023
2010A	3,110,000	395,000	2,715,000	.9-4.0%	July 1, 2025

The 2000A Series Bonds were issued June 29, 2000. The Series 2008A Bonds were issued October 3, 2008, and the Series 2010A Bonds were issued November 12, 2010. Bonds mature at various intervals through July 2025.

The debt service requirements on bonds maturing in subsequent years are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 780,000	\$ 220,288	\$ 1,000,288
2016	1,350,000	170,135	1,520,135
2017	340,000	131,805	471,805
2018	355,000	121,093	476,093
2019	365,000	108,859	473,859
2020-2024	1,850,000	329,998	2,179,998
2025-2026	525,000	21,100	546,100
TOTAL	\$ 5,565,000	\$ 1,103,278	\$ 6,668,278

Federal arbitrage regulations are applicable to these bonds.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2014, 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	\$ 20,489	\$ 217	-	\$ 20,706	\$ 1,449

7. 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 EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2014. 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, 2014, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1997	\$ 12,824,000	\$ 12,824,000	-
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 - ARRA	19,500,000	19,500,000	-
2009	8,146,000	8,146,000	-
2010	13,573,000	12,369,256	1,203,744
2011	9,418,000	5,972,149	3,445,851
2012	8,695,558	5,398,654	3,296,904
2013	8,533,907	2,858,033	5,675,874
TOTAL	\$ 168,071,191	\$ 154,448,818	\$ 13,622,373

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. **Capital Contributions** (Concluded)

The 2014 grant was awarded on July 2, 2014, after the end of State fiscal year 2014. The award was for \$10,614,000, which consisted of \$8,845,000 in Federal dollars and \$1,769,000 in State match dollars. Not included in the above Grant totals are the amounts set aside as in-kind contributions for the Loans Grant Tracking System (LGTS) software development. The 2012 grant had \$166,535 set aside as in-kind amounts for use by the EPA for the cost of the development of the new LGTS software. The amount expended/drawn down for the LGTS software for fiscal year ending June 30, 2014, was \$14,706.

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

Contributed Capital July 1, 2013	\$ 146,754,037
Contributed During the Year:	
Funds from EPA	9,969,280
Funds from ARRA	-
Contributed Capital June 30, 2014	<u>\$156,723,317</u>

Also included in the contributed capital is a total of all general funds received by the Program from the Legislature of the State of Nebraska. These assets were to be used as match for the Program for the initial capitalization grant received by the State. The State contributed \$1,162,318 and \$1,166,518 in the fiscal years ended June 30, 1998 and 1999, respectively. Included in the Funds from the EPA amount is the reversal of the decrease in Due From Federal Government from the prior year of \$70,338, and the increase in Due From Federal Government from the current year of \$246,755. Due From Federal Government was also restated from the prior fiscal year by \$230,754 due to an unrecorded receivable.

Nebraska was awarded \$19,500,000 in American Recovery and Reinvestment Act (ARRA) funds for upgrades to public water systems. ARRA provided new, one-time funding, which was combined with existing funds from the Drinking Water State Revolving Fund. ARRA required the State to use at least 50% of the funds provided by this grant to offer additional subsidization in the form of loan forgiveness. ARRA funds did not require a State match.

8. **Loan Fees Administration**

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 not included in the loan principal. It is calculated on a semi-annual basis and billed when loan principal and interest payments are due. The fee is applied to all loans in accordance with Title 131 Nebraska Administrative Code (NAC) Chapter 8 and the loan agreement.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. 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.

10. Operating Expenses

The operating expenses of the Program are classified, for financial reporting purposes, into five categories. Expenses were related to three set-aside activities established under §1452 of the Safe Drinking Water Act. The three set-aside activities are:

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

A Memorandum of Understanding was entered into between the Agency and the Nebraska Department of Health and Human Services, so that the Agency can carry out oversight and related activities of the Program. The Program provides funding to the Nebraska Department of Health and Human Services with the three set-asides noted above.

All set-asides are required to be Federally funded. State match dollars can only be used for the purpose of providing loans to owners of Public Water Supply Systems. Other significant categories of expenses are Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these 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 of the Program. Revenues from fees can be used to provide the capitalization grant match, loan forgiveness, or planning grants.

15% Source Water Assessment Program

Identified in Federal regulations as local assistance and other State programs, a State may use up to 15% of the capitalization grant amount for specified uses, as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. Operating Expenses (Concluded)

- Provide assistance to a community water system to implement voluntary, incentive-based source water quality protection measures;
- Provide funding to delineate and assess source water protection areas;
- Support the establishment and implementation of wellhead protection programs; and
- Provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

2% Technical Assistance to Small Systems

A State may use up to 2% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority and use it for the same activities in later years. A State may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

10% Public Water Supply System

A State may use up to 10% of the grant funds awarded to:

- Administer the State Public Water System Supervision program;
- Administer or provide technical assistance through source water protection programs, which includes the Class V portion of the Underground Injection Control Program;
- Develop and implement a capacity development strategy; and
- Develop and implement an operator certification program.

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments the State subsidized to communities meeting the definition of “disadvantaged” or which the State expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year’s capitalization grant cannot exceed 30% of the amount of the capitalization grant for that year.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. 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.

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 18 years, may exercise the option to begin participation in the retirement system.

Contribution. Per statute, each member contributes 4.8% of his or her 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 is 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 is 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, 2014, employees contributed \$10,036, and the Agency contributed \$15,656. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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.

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 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

12. Contingencies and Commitments (Concluded)

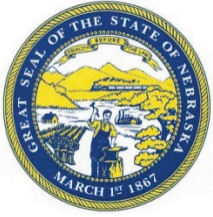
No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments, as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Program's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the 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.

13. Restatement of Beginning Net Position

Beginning Net Position on the Statement of Revenues, Expenses, and Changes in Net Position was restated/increased by \$230,754 to adjust for an unrecorded receivable from the Federal government.

Beginning Cash and Cash Equivalents on the Statement of Cash Flows was restated/decreased by \$7,562,650 to adjust for a reclassification of certain Trustee investments from a Cash and Cash Equivalents designation to an Investment designation.



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING 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 – Drinking Water State Revolving Fund Program, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's basic financial statements, and have issued our report thereon dated April 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nebraska Department of Environmental Quality – Drinking 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 – Drinking 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 – Drinking 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 – Drinking 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 Finding


We noted a certain matter that we reported to management of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program in the Comments Section of this report as Comment Number 1 (Technical and Managerial Capabilities).

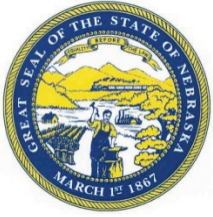
The Nebraska Department of Environmental Quality's response to the finding identified in our audit is described in the accompanying Comments Section of this report. The Nebraska Department of Environmental Quality's response was not subjected to the auditing procedures applied in the audit of the financial 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 10, 2015


Don Dunlap, CPA
Assistant Deputy Auditor



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND PROGRAM
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY – DRINKING WATER STATE REVOLVING FUND
PROGRAM IN ACCORDANCE WITH THE OMB CIRCULAR A-133 COMPLIANCE
SUPPLEMENT**

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

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

We have audited the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program for the year ended June 30, 2014.

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 – Drinking Water State Revolving Fund Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Nebraska Department of Environmental Quality – Drinking 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 – Drinking Water State Revolving Fund Program occurred. An audit includes examining, on a test basis, evidence about the Nebraska Department of Environmental Quality – Drinking 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 – Drinking Water State Revolving Fund Program. However, our audit does not provide a legal determination of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program's compliance.

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

In our opinion, the Nebraska Department of Environmental Quality – Drinking 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 – Drinking Water State Revolving Fund Program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the Comments Section of this report as Comment Number 1 (Technical and Managerial Capabilities). Our opinion on the Nebraska Department of Environmental Quality – Drinking 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 – Drinking 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 – Drinking 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 – Drinking 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 – Drinking Water State Revolving Fund Program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 – Drinking 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 compliance and 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lincoln, Nebraska
April 10, 2015


Don Dunlap, CPA
Assistant Deputy Auditor

ATTACHMENT 4 - PROJECT INFORMATION FOR SFY 2015 LOANS

PWS System	Project Name	Project Description	Public Health Impact Description	Comments
BAYARD, CITY OF	Replacement of Water Meters	The system replaced 329 old water meters in their Public Water System (PWS).	This project is funded in conjunction with a loan/grant from USDA-RD for a Water Treatment Plant to remove Nitrates from Bayard's supply.	The infrastructure investment in replacing water meters is in line with the stated goals of EPAs Drinking Water Infrastructure Sustainability Policy.
GARLAND, VILLAGE OF	Distribution System Improvements, Replacement Meters, Rehabilitate Tower and Well	<p>In November 2012, a Preliminary Engineering Report (PER) was completed by the Village's Engineer. The PWS consists of two municipal wells, a 35,000 Gallon Water Tower and an undersized distribution system, the majority of which was constructed in the 1920's, reportedly with oakum gasketed joints. There are several sections of the system that have experienced repeated breaks, and in recent years, the system has measured an unacceptable amount of unaccounted for water produced. Numerous alternatives for improving the water system were evaluated, including adding a new well and/or water treatment to remove iron and manganese, or interconnecting with a nearby community. Each was ruled out by the Village though as recent inspections of their wells showed the existing pumps are in good condition and that the primary well is structurally sound. Miscellaneous well improvements such as updating electrical service, heating, etc. will be completed as part of the project.</p> <p>The elevated tank was recently inspected and it was determined that a full repainting is needed, including lead-paint removal/disposal, as well as replacing the riser pipe insulation jacket. Not completing that project phase would decrease the expected useful life of the tower. Replacement of the tower was evaluated, with a noted overall increased cost. As the existing tower has capacity to meet the Village's demands per current design standards, replacement of the tank was eliminated from consideration, and a rehabilitation of the storage tower will be included as a project phase. The aged undersized water distribution system piping is in need of replacement, with some new mains proposed to eliminate dead-ends and loop the system. Areas along 1st, 2nd and Frazier Streets where repeated breaks have occurred will be included in the project.</p> <p>Lastly, the systems water meters were installed in 1997. As they are approaching or at their design life, and with the</p>	N/A	The infrastructure investment in replacing water mains is in line with the stated goals of EPAs Drinking Water Infrastructure Sustainability Policy.

		recent passage of the Reduction of Lead in Drinking Water Act, the Village is considering replacing the meters and upgrading to a radio-read system. If included as a project phase, the new meters would be categorically eligible for funding under the Green Project Reserve.		
KEARNEY, CITY OF	Bearcat Corner Water Extensions	The Bearcat Corner project extended water main along 27th Avenue and 30th Avenue south of 11th Street to serve the City's Replacement High School.	N/A	N/A
MAXWELL, VILLAGE OF	Emergency Water Tower Repair	The project was needed to repair a crack that formed in the Village's Water Tower, including replacement of a section of the riser pipe.	N/A	N/A
SOUTH SIOUX CITY, CITY OF	New Water Tower, Replacement Well and Distribution System Improvements	In June 2014, a PER was prepared to study the needs of the water system. It concluded that a long-term replacement to Well No. 5 is needed. While that well is not officially inactive, it has deteriorated over time that is now offline. As such, only one well is providing raw water supply to the B Street treatment plant. In addition, it was recommended that a new 500,000 Gallon Water Tower also be constructed, as the existing towers cannot meet the present 2.8 million gallon average day system demand, a recommended design standard. Lastly, a water main in Dakota Avenue will be replaced and upsized to improve the distribution of treated water to the southern portion of the City.	N/A	The infrastructure investment in replacing water mains is in line with the stated goals of EPA's Drinking Water Infrastructure Sustainability Policy.
TOBIAS, VILLAGE OF	Backup Well, Rehabilitate Well and Distribution System Improvements	In May 2014, the Village's Engineer completed a Limited PER that evaluated Tobias's water system needs. The PWS consists of a single municipal well, an elevated 40,000 gallon water storage tower, and a distribution system. In addition, there is an old inactive cistern well that can be abandoned as part of the project. The Village's primary Well No. 80-1 has a capacity of 150 gallons per minute (gpm) and is in operable condition. Static water levels in that well have dropped nearly 10 feet, likely due to the ongoing drought. The engineering report concluded that the Village needed a new well to establish a backup supply for the system and to also lower the pump in the existing well to extend its operational expectancy. The project will also add valves and meters to the system, and upgrade existing well controls.	N/A	N/A

VALLEY, CITY OF	Consolidation of Pine Homeowners Association Water System	As of February of 2013, the Pines Homeowners Association (HOA) PWS had been under an Administrative Order to return to compliance with the Trichloroethylene (TCE) Maximum Contaminant Level. In July 2014, the Pines HOA's Engineer completed a PER that evaluated the water system's needs. The PWS consists of an active municipal well, a 3,000 gallon pressure tank, and distribution system. To address the TCE issue, replacement well and treatment alternatives were evaluated, but the report recommended that interconnecting with the City of Valley was the best alternative. The water main was reasonably sized should future development occur west of the City.	As of February of 2013, the Pines HOA PWS has been under an Administrative Order to return to compliance with the TCE Maximum Contaminant Level. However the TCE levels in that system's supply continued to increase further, to levels over 10 µg/L, wherein the inhalation risk (e.g., mist off shower heads, etc.) began to exceed to drinking water risk. As such, DHHS issued an Emergency Order for the system to return into compliance, and this project to connect the Pines system to the City of Valley was developed.	N/A
WISNER, CITY OF	Highway 275 Water Main Replacement	The 2,500 feet of 6 inch water main project was constructed, in part to replace a network of 2 inch service mains which experience notable pressure drops when more than one user is demanding water.	N/A	The infrastructure investment in replacing water mains is in line with the stated goals of EPA's Drinking Water Infrastructure Sustainability Policy.
WOOD LAKE, VILLAGE OF	Water Tower Rehabilitation	A Water System Evaluation confirmed the need for a rehabilitation of the Village's 40,000 gallon water tower, including repair of roof eaves, interior and exterior repainting, as well as the installation of safety rails, ladders and a new access hatch.	The project will likely permanently address recurring Administrative Order conditions as the system's supply wells, distribution system and service meters were recently replaced in 2002, leaving only the tower as a potential pathway for coliform contamination through infrastructure.	N/A

SFY 2015 FUNDING LIST PLANNED					SFY 2014/2015 FUNDED PROGRAM				
PROJECT RANK	PRIORITY POINTS	PUBLIC WATER SYSTEM	ESTIMATED COST	ESTIMATED FORGIVENESS	TOTAL ASSISTANCE	ACTUAL FORGIVENESS	NET LOAN AMOUNT	AGREEMENT DATE/QUARTER	COMMENTS
1	CatEx	WOOD LAKE, VILLAGE OF	\$ 125,000	\$ 43,750	\$ 125,000	\$ 43,750	\$ 81,250	SFY2015-Q4	
2	FNSI	OSMOND, CITY OF	\$ 805,000	\$ 281,750	\$ -	\$ -	\$ -	SFY2016-Q1	Project delayed, shifted to the SFY 2016 Funding List
3	FNSI	LAUREL, CITY OF	\$ 1,050,000	\$ 367,500	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2016 Funding List
4	FNSI	OGALLALA, CITY OF - SFY 2013	\$ 2,707,119	\$ 541,424	\$ 2,719,119	\$ 543,824	\$ 2,175,295	SFY2014-Q4	
5	FNSI	KEARNEY, CITY OF	\$ 2,554,000	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000	SFY2014-Q4	
6	FNSI	GARLAND, VILLAGE OF	\$ 815,900	\$ 163,180	\$ 1,220,000	\$ 244,000	\$ 976,000	SFY2015-Q3	
7	FNSI	TOBIAS, VILLAGE OF - SFY 2014	\$ 200,000	\$ 40,000	\$ 600,000	\$ 120,000	\$ 480,000	SFY2015-Q2	
8	FNSI	MCCOOK, CITY OF	\$ 2,086,810	\$ 417,362	\$ 2,086,810	\$ 417,362	\$ 1,669,448	SFY2014-Q4	
9	FNSI	WAVERLY, CITY OF	\$ 4,610,000	\$ -	\$ 4,610,000	\$ -	\$ 4,610,000	SFY2014-Q4	
10	165	DAVEY, VILLAGE OF	\$ 1,070,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2016 Funding List
11	160	GREEN ACRES MOBILE HOME COURT - SFY 2012	\$ 51,000	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2016 Funding List
12	160	OSHKOSH, CITY OF	\$ 4,025,000	\$ 805,000	\$ -	\$ -	\$ -	SFY2016-Q1	Project delayed, shifted to the SFY 2016 Funding List
13	145	PHILLIPS, VILLAGE OF	\$ 670,000	\$ 192,759	\$ -	\$ -	\$ -	SFY2016-Q1	Project delayed, shifted to the SFY 2016 Funding List
14	140	PLEASANTON, VILLAGE OF	\$ 1,250,000	\$ 85,875	\$ -	\$ -	\$ -	SFY2016-Q1	Project delayed, shifted to the SFY 2016 Funding List
15	135	SPRINGFIELD, CITY OF	\$ 1,605,000	\$ 282,801	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2016 Funding List
16	135	AURORA, CITY OF	\$ 700,000	\$ 51,940	\$ 2,719,119	\$ 543,824	\$ 2,175,295	TBD	Project delayed, shifted to the SFY 2016 Funding List
17	135	YUTAN, CITY OF	\$ 552,000	\$ 19,596	\$ -	\$ -	\$ -	N/A	Project privately funded
18	120	CEDAR-KNOX RWD - SFY 2014	\$ 510,000	\$ 102,000	\$ -	\$ -	\$ -	TBD	Project placed on hold
19	110	KILGORE, VILLAGE OF - SFY 2014	\$ 351,300	\$ -	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2016 Funding List
20	80	HARBINE, VILLAGE OF - SFY 2014	\$ 200,000	\$ 40,000	\$ -	\$ -	\$ -	TBD	Project to likely be privately funded
21	70	WEST KNOX RWD - SFY 2014	\$ 2,426,433	\$ -	\$ -	\$ -	\$ -	N/A	Project delayed, shifted to the SFY 2016 Funding List
22	60	FALLS CITY, CITY OF	\$ 2,324,000	\$ 464,800	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2016 Funding List
23	60	SOUTH SIOUX CITY, CITY OF	\$ 3,930,000	\$ -	\$ 3,128,000	\$ -	\$ 3,128,000	SFY2015-Q2	
24	60	LINCOLN, CITY OF - SFY 2012	\$ 13,000,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded
25	0	BARNESTON, VILLAGE OF	\$ 134,000	\$ -	\$ -	\$ -	\$ -	N/A	Project funded by USDA-RD
26	0	CUMING CO RWD 1	\$ 245,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded
27	0	OTOE CO RWD 1	\$ 98,000	\$ -	\$ -	\$ -	\$ -	N/A	Project privately funded
SFY 2015 PLANNING LIST - BYPASS SYSTEMS					SFY 2015 FUNDED PROGRAM				
NR	135	KEARNEY, CITY OF	\$ 18,291,000	N/A	\$ 427,000	\$ -	\$ 427,000	SFY2015-Q1	Funded per SFY2014 Bypass Criteria
NR	NR	MAXWELL, VILLAGE OF	N/A	N/A	\$ 60,000	\$ -	\$ 60,000	SFY2015-Q4	Funded per SFY2015 Emergency Project Criteria
NR	NR	VALLEY, CITY OF	N/A	N/A	\$ 775,000	\$ 193,166	\$ 581,834	SFY2015-Q2	Funded per SFY2015 Emergency Project Criteria
NR	30	WISNER, CITY OF	\$ 115,000	N/A	\$ 192,550	\$ -	\$ 192,550	SFY2015-Q1	Funded per SFY2014 Bypass Criteria
					\$ 20,662,598	\$ 2,105,926	\$ 18,556,672		

SFY 2015 GREEN PROJECT RESERVE FUNDING LIST PLANNED				SFY 2015 GREEN PROJECT RESERVE FUNDED PROGRAM				
PROJECT RANK	PUBLIC WATER SYSTEM	ESTIMATED COST	ESTIMATED FORGIVENESS	TOTAL ASSISTANCE	ACTUAL FORGIVENESS	NET LOAN AMOUNT	AGREEMENT DATE/QUARTER	FUNDING DESCRIPTION AND/OR COMMENTS
1	BAYARD, CITY OF - SFY 2012	\$ 200,000	\$ 40,000	\$ 236,409	\$ 47,282	\$ 189,127	SFY2015-Q2	Project delayed, shifted to the SFY 2015 Funding List
2	HARTINGTON, CITY OF	\$ 300,000	\$ 60,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
3	KENESAW, VILLAGE OF	\$ 644,000	\$ 92,672	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
4	LODGEPOLE, VILLAGE OF	\$ 300,000	\$ 60,000	\$ -	\$ -	\$ -	TBD	Project delayed, shifted to the SFY 2015 Funding List
				\$ 236,409	\$ 47,282	\$ 189,127		