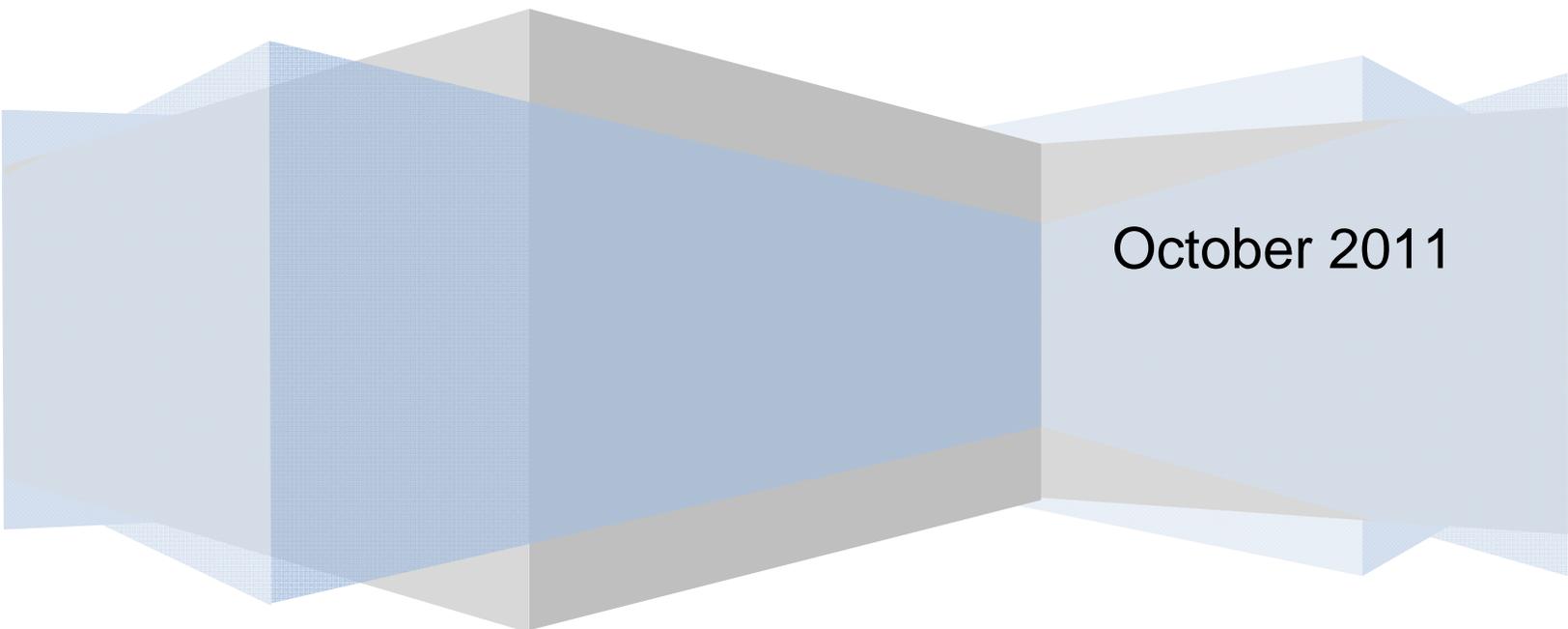


State of Nebraska
Department of Environmental Quality

Clean Water State Revolving Fund Annual Report

State Fiscal Year 2011



October 2011

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EXECUTIVE SUMMARY

The Nebraska Clean Water State Revolving Loan Fund Annual Report for state fiscal year 2011 (7/1/10 - 6/30/11) describes the state's efforts to meet the goals and objectives of its Clean Water State Revolving Loan Program (CWSRF). The projects identified in the Intended Use Plan (IUP), the actual use of funds, and the financial position of the CWSRF are summarized in this report. The report is organized in two sections, the first section is the Financial Schedule Section along with the notes to the financial schedules, the second section is the Program Section serving to provide supplemental information tying back to the Intended Use Plan. The reader should be aware that the financial information provided in the Program Section is cash based, while the information provided in the Financial Section is accrual based. It may be difficult to compare numbers between the two sections.

Since 1989 the CWSRF has provided loans for 220 projects with a cumulative loan award amount of \$368 million.

I. Financial Section

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

BACKGROUND

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program (Program) was established pursuant to Title VI of the Federal Clean Water Act, as amended by the Water Quality Act of 1987. Neb. Rev. Stat. § 81-15,147 created the Wastewater Treatment Facilities Construction Assistance Act. The Federal Water Quality Act and State statutes established the Clean Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of the building of wastewater treatment facilities, the Program provides for low interest loans to finance the entire cost of qualified projects. The Program provides a flexible financing source which can be used for a variety of projects. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1989. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2011, the EPA had awarded ~\$166 million in capitalization grants to the State. The award of this \$166 million required the State to contribute approximately \$29 million in matching funds. The State provided appropriations to contribute \$955,000 of the funds to meet the State's matching requirement. Additional matching funds were obtained through the issuance of revenue bonds.

The Program is administered by the Nebraska Department of Environmental Quality (Department). The Department's primary activities with regard to the Program include the making of loans for water pollution control facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department and the Program's Intended Use Plan.

A. Management's Discussion and Analysis (Unaudited)

This section of the Nebraska Department of Environmental Quality (Department) - Clean Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2011. This analysis has been prepared by management of the Department, and is intended to be read in conjunction with the Program's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 1) Balance Sheet, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Balance Sheet presents information on all of the Program's assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Program's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents the Program's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the Program's cash receipts and payments during the year.

The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

AMERICAN RECOVERY AND REINVESTMENT FUNDS

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

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

The \$20 million in ARRA funds was blended with approximately \$34 million of Nebraska's existing CWSRF loan funds. Prior to the addition of ARRA funds, the 2009 CWSRF Intended Use Plan had targeted six communities to receive low-interest loans in 2009, with numerous others communities awaiting future funding. The addition of the ARRA funds expanded this list to 16 communities that received a combination of low-interest loans and principal forgiveness. These communities were offered a package including a 50 percent low interest loan from existing state CWSRF funding, a 25 percent no-interest loan of ARRA funds, and 25 percent principal forgiveness of ARRA funds.

Analysis of Balances and Transactions of Enterprise Fund

Changes in Net Assets

For the fiscal year ended June 30, 2011, net assets of the Program increased by 7%. Revenues decreased 4% and expenses increased 546%. The 7% increase in current assets was primarily due to several loan payoffs and an increase in accounts receivable due to new ARRA loans.

NET ASSETS				
	<u>2011</u>	<u>2010</u>	<u>% Change</u>	<u>\$ Change</u>
Current Assets	\$ 87,568,922	\$ 61,773,245	42%	\$ 25,795,677
Noncurrent Assets	<u>\$ 138,902,591</u>	<u>\$ 148,211,958</u>	<u>-6%</u>	<u>\$ (9,309,367)</u>
Total Assets	<u>\$ 226,471,513</u>	<u>\$ 209,985,203</u>	<u>8%</u>	<u>\$ 16,486,310</u>
Net Assets:				
Unrestricted	<u>\$ 226,471,513</u>	<u>\$ 209,985,203</u>	<u>8%</u>	<u>\$ 16,486,310</u>
Total Net Assets	<u><u>\$ 226,471,513</u></u>	<u><u>\$ 209,985,203</u></u>	<u><u>8%</u></u>	<u><u>\$ 16,486,310</u></u>

CHANGES IN NET ASSETS				
	<u>2011</u>	<u>2010</u>	<u>% Change</u>	<u>\$ Change</u>
Loan Fees Administration	\$ 1,267,857	\$ 1,528,624	-17%	\$ (260,767)
Interest	<u>6,442,076</u>	<u>6,207,685</u>	<u>4%</u>	<u>234,391</u>
Total Operating Revenues	<u>7,709,933</u>	<u>7,736,309</u>	<u>0%</u>	<u>(26,376)</u>
Administration	1,486,977	1,910,226	-22%	(423,249)
Bond Expenses	12,001	8,165	47%	3,836
Loan Forgiveness	<u>5,752,171</u>	<u>5,435,631</u>	<u>100%</u>	<u>316,540</u>
Total Operating Expenses	<u>7,251,149</u>	<u>7,354,022</u>	<u>-1%</u>	<u>(102,873)</u>
Operating Income	458,784	382,287	20%	76,497
Capital Federal Grants	6,605,026	3,392,691	95%	3,212,335
Capital Contributions ARRA Grants	<u>9,422,500</u>	<u>10,569,303</u>	<u>100%</u>	<u>(1,146,803)</u>
Change in Net Assets	16,486,310	14,344,281	15%	2,142,029
Beginning Net Assets July 1	<u>209,985,203</u>	<u>195,640,922</u>	<u>7%</u>	<u>14,344,281</u>
Ending Net Assets June 30	<u><u>\$ 226,471,513</u></u>	<u><u>\$ 209,985,203</u></u>	<u><u>8%</u></u>	<u><u>16,486,310</u></u>

Economic Outlook

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

Debt Administration

Long-Term Debt

The Clean Water State Revolving Fund Program had debt activity during the fiscal year that was short-term in nature resulting from a bond issue. The issue was for \$2,085,000, which was repaid within the same fiscal year.

B. BALANCE SHEET - UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
For the Year Ended June 30, 2011

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash in State Treasury	\$ 76,912,558
Cash with Fiscal Agent	-
Administration Fees Receivable	292
Loan Interest Receivable	877
Interest Receivable	157,804
Loans Receivable - Current	10,497,391
TOTAL CURRENT ASSETS	<u>\$ 87,568,922</u>
NON-CURRENT ASSETS	
Loans Receivable	138,902,591
TOTAL NON-CURRENT ASSETS	<u>\$ 138,902,591</u>
TOTAL ASSETS	<u><u>\$ 226,471,513</u></u>
LIABILITIES	
Bonds Payable	-
TOTAL LIABILITIES	<u>\$ -</u>
NET ASSETS	
Unrestricted	226,471,513
TOTAL NET ASSETS	<u>\$ 226,471,513</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 226,471,513</u></u>

C. STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND PROGRAM
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 For the Year Ended June 30, 2011

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Loan Fees Administration	\$ 1,267,361
Interest on Loans	4,420,602
Interest on Fund Balance - State Operating Investment Pool	2,021,474
Interest on Fund Balance - Trustee	-
Fines Forfeits & Penalties	496
TOTAL OPERATING REVENUES	<u>\$ 7,709,933</u>
OPERATING EXPENSES:	
Administrative Costs from Fees	901,919
4% Administrative Costs From Grants	150,653
Small Town Grants	376,604
Facility Planning Grants	57,801
Interest Expense on Bonds Payable	12,001
Principal Forgiveness ARRA	4,573,879
Principal Forgiveness Non-ARRA	1,178,292
TOTAL OPERATING EXPENSES	<u>\$ 7,251,149</u>
OPERATING INCOME	\$ 458,784
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS	6,605,026
CAPITAL CONTRIBUTIONS - ARRA FEDERAL GRANTS	<u>9,422,500</u>
CHANGE IN NET ASSETS	\$ 16,486,310
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>209,985,203</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 226,471,513</u>

D. STATEMENT OF CASH FLOWS - UNAUDITED

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 48,187,327
Interest on Investments	2,028,459
Interest on Fund Balance - Trustee	-
Payments for Administration	(1,052,572)
Payments for Small Town Grants	(376,604)
Payments for Facility Planning Grants	(57,801)
Principal Forgiveness	(5,752,171)
Payments to Borrowers	(31,897,675)
Interest on Bond	(12,001)
Receipts from Bond Issue	-
Repayment of Bond	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 11,066,962</u>
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	6,605,026
Funds Received From the Environmental Protection Agency - ARRA Funds	9,422,500
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	<u>\$ 16,027,526</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>49,818,070</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 76,912,558</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 458,784
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	10,595,660
(Increase)/Decrease in Interest Receivable	6,984
(Increase)/Decrease in Administration Fees Receivable	1,740
(Increase)/Decrease in Loan Interest Receivable	3,794
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 11,066,962</u></u>

E. NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - UNAUDITED

For the Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the Nebraska Department of Environmental Quality (Department) Clean Water State Revolving Fund Program (Program) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS).

B. Reporting Entity

The Clean Water State Revolving Fund Program is a program within the Department and is established under and governed by the Clean Water Act of the Federal Government and by laws of the State of Nebraska. The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Program's management has also considered all potential component units of the Program for which it is financially accountable, and other organizations which are fiscally dependent on the Program's management, or the significance of their relationship with the Program's management are such that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department.

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. It includes the following funds as identified in the Wastewater Treatment Facilities Construction Assistance Act:

- Clean Water Facilities Funds – General Fund 10000, Federal Funds 48412 and 48413, and Bond Funds 68470, 68471, 68472 and 68473.
- Administration Funds – Cash Funds 28460, 28461 and 28462.

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

The activity of these ten State of Nebraska funds have been combined and reported as an enterprise fund, which under governmental GAAP is a proprietary fund type. This fund type reflects transactions used to account for those operations that are financed and operated in a manner similar to a private business. The accounting for the Program's transactions in this manner is a requirement of the Environmental Protection Agency (EPA) as they and the Department have decided that the determination of revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA that the Program will be available in perpetuity as intended.

This fund classification differs from the classification used in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). The CAFR classifies the Cash funds, Federal funds, and Bond funds as Special Revenue funds because the major source of revenue is Federal assistance.

D. Measurement Focus, Basis of Accounting

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

Enterprise funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In reporting the financial activity of its enterprise fund, the Program's management applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months, however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2011, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and Cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

F. Loans Receivables

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Clean Water Program is funded, on average, 83.33% from federal capitalization grants and 16.67% from State matching funds, other than American Recovery and Reinvestment Act (ARRA) funds. ARRA funds do not require State matching funds. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced, and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, and accrued interest during the project period. The interest rates on loans range from 2.0% to 5.25% and the terms are between 5 to 20 years. The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2011, which is collectible in fiscal year 2012.

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

G. Use of Estimates

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

2. Cash in State Treasury

Cash in State Treasury as reported on the balance sheet is under the control of the Nebraska State Treasurer or other administrative bodies as determined by law. Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio including investment policies, risks, and types of investments can be found in the State of Nebraska's CAFR for the fiscal year ended June 30, 2011. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Clean Water State Revolving Fund Program were designated for investment during fiscal year 2011. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

As of June 30, 2011, the Program had 193 outstanding loans with communities that totaled \$195,997,214. The outstanding balances of the ten communities with the largest SRF debt, which represent 51.1% of the total loans, were as follows:

City	Outstanding Balance
Lincoln	\$25,645,333
North Platte	14,526,530
Omaha	13,293,668
Gosper County SID #1	10,737,185
Lower Platte North NRD	7,953,305
Wayne	6,750,000
Gibbon	5,629,177
Scottsbluff	5,511,978
Broken Bow	5,249,451
Nebraska City	4,889,865
TOTAL	\$100,186,492

4. Bonds Payable

The EPA requires the Program to provide 20% matching funds for each capitalization grant under Sec. 602(b)(2) of the Federal Clean Water Act. During the fiscal year, the Program issued Series 2010B short-term revenue bonds to meet this requirement. Bond Series 2010B was retired during the year ended June 30, 2011. Bonds Payable activity for fiscal year 2011 was:

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

5. Net Assets

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the capitalization grants awarded, drawn, and the remaining balance as of June 30, 2011. The year column relates directly to the grant amount column and represents the fiscal year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2011, and may have been drawn over multiple years.

Year	Grant Amount	Amount Drawn	Balance
1989	\$4,773,100	\$4,773,100	\$ -
1990	4,964,560	4,964,560	-
1991	10,821,580	10,821,580	-
1992	9,938,500	9,938,500	-
1993	9,830,300	9,830,300	-
1994	6,061,600	6,061,600	-
1995	6,263,600	6,263,600	-
1996	10,319,661	10,319,661	-
1997	3,119,900	3,119,900	-
1998	7,019,996	7,019,996	-
1999	6,857,600	6,857,600	-
2000	6,834,000	6,834,000	-
2001	6,797,400	6,797,400	-
2002	6,855,000	6,855,000	-
2003	7,069,900	7,069,900	-
2004	6,747,100	6,747,100	-
2005	5,467,300	5,467,300	-
2006	4,424,300	4,424,300	-
2007	5,429,600	5,429,600	-
2008	3,415,700	3,415,700	-
2009 – ARRA	20,045,000	19,991,803	53,197
2009	3,415,700	3,415,700	-
2010	10,422,000	6,582,016	3,839,984
Totals	\$ 166,893,397	\$ 163,000,216	3,893,181

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

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

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

Also included in the Contributed Capital is a total of all general funds received by the Program from the 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 \$300,000 and \$655,000 in fiscal years ended June 30, 1989 and 1990, respectively.

6. Loan Fees Administration

The reported amount comes from a fee charged to loan recipients each year based on the amount of the loan outstanding. The fee ranged from 0.5% to 1% per annum and was collected semi-annually. Of the total collected, \$166,400 was used as match for the 2011 capitalization grant received in fiscal year 2011.

7. Interest on Fund Balance - State Operating Pool

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

8. Small Town Grants and ARRA Principal Forgiveness

Small Town Grants are made to communities that have a population of 10,000 people or less. The total maximum of Small Town Grants for State fiscal year 2011 was \$850,000. In the 2011 Intended Use Plan, the department limits the maximum amount of small town grants to \$250,000 per project, concurrent with a Program loan. Projects are prioritized based on type of project and financial hardship. Small Town Grants are funded with loan fees administration funds.

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

9. Operating Revenues and Expenses

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

10. State Employees' Retirement Plan (Plan)

The single-employer plan became effective by statute on January 1, 1964. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on or after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska legislature.

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

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

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

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

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

For the fiscal year ended June 30, 2011, employees contributed \$27,603.47 and the Department contributed \$43,061.41. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement system. This report contains full pension-related disclosures.

The State of Nebraska Comprehensive Annual Report (CAFR) also includes pension-related disclosures. The CAFR is available from the Nebraska Department of Administrative Services – Accounting division or on the Nebraska auditor of Public Accounts website at www.auditors.state.ne.us.

11. **Contingencies and Commitments.**

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

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

up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS – Risk Management Division.

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

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

II. PROGRAM SECTION

A. FUND ACTIVITIES

1. *Loan and Investment Status*

The fund has a loan portfolio containing \$367,796.01 total loan allocations; \$173,676,816.76 was repaid, \$149,399,982.25 is outstanding, leaving \$44,719,882 to be disbursed. Details on the Fund loan portfolio are in Attachment 1. The FY2011 blended interest rate on the outstanding loan balance is 2.666%. The FY2010 blended rate was 3.044%. This year's blended interest rate is 37.8 basis points below last year.

2. *Source of CWSRF Funds by Quarter*

State match for the FFY2010 capitalization grant was provided by the \$2,085,000 NIFA/SRF 2010B bond issued on August 19, 2010. The FFY2010 capitalization grant was awarded on September 9, 2010. The \$1,505,000 NIFA/CWSRF 2010B bond, state match for the FFY2011 capitalization grant is scheduled for issuance on August 1, 2011 and the capitalization grant award is expected in September 2011.

SOURCE OF STATE MATCH
PROGRAM FUNDING YEAR FFY2010 AND FFY2011
CAPITALIZATION GRANTS

NIFA Bond	Quarter	Bond Funds	Cash
2010B	SFY2011-Q1	\$2,085,000	na
2011B	SFY2012-Q1	\$1,505,000	\$800

CAPITALIZATION GRANT PAYMENT SCHEDULE

CAP GRANT	QUARTER	PAYMENT
FFY2010	2011-Q1	\$10,422,000
FFY2011	SFY2012-Q1	\$7,529,000

3. *Binding Commitments*

The CWSRF entered into 27 binding commitments and six loan amendments to existing funded communities which provided financial assistance to 27 new Section 212 Projects totaling \$47,253,985. There were no new ARRA projects funded, but contract amendments were made to the following six communities: Broken Bow (ARRA), Cedar Bluffs (ARRA), Dorchester (ARRA), Leigh, Platte Center (ARRA), and Tekamah (ARRA). The binding commitment total for SFY2011 after final loan adjustments totals \$46,473,143. The cumulative binding commitment exceeds the federal 120% binding commitment requirement for SFY2011. The cumulative binding commitment amount of initial loan awards plus 4% administration totals \$421,355,460.

Attachment 2 provides information showing the binding commitments entered into during SFY2011 and shows the cumulative binding commitment amount for initial loan awards and 4% administration since the program initiation. The requirement is to allocate 120% of the capitalization grant within one year. The CWSRF has reached \$421,355,460 or 219% of the required amount.

4. Small Town Grant Report

The Department has authority to obligate up to \$850,000 per year for small town matching grants. It is our intent to provide funding to as many projects as possible who qualify; therefore, we limit the amount that any one community could receive to \$250,000 per year.

The following table reports allocations to projects during SFY2011. Attachment 3 provides more detail on fund history, disbursements, and balances.

COMMUNITY	PROJECT #C31	GRANT AWARD DATE	GRANT AMOUNT
Carroll	7107	4/01/11	\$250,000
Hayes Center	7291	3/22/11	250,000
Polk Co. SID #1 (Duncan Lakes)	7696	6/30/11	221,796
Tekamah (ARRA Amend)	7252	5/11/11	10,068
SFY2011 Allocation Total			\$731,864

5. Nebraska Environmental Partnerships (NEP)

NEP used CWSRF administrative cash funds to provide financial assistance to eligible municipalities for facility planning reports for wastewater treatment system improvement projects that will seek funding through the Water Wastewater Advisory Committee (WWAC) Common Pre-application Process. This financial assistance is being provided to communities to identify capital improvement needs as well as increase their readiness to proceed in accomplishing these improvements.

Facility planning grants may be provided to municipalities with populations of 10,000 or fewer people that are identified with a financial hardship. 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 wastewater treatment facility. Privately owned wastewater treatment systems are not eligible for assistance.

Grants are provided for up to 90% of the eligible facility plan project cost, but cannot exceed \$20,000. No grants were awarded for SFY2010 or SFY2011; however, grant funds will be available for SFY2012.

Since its inception in SFY2004, NEP through the CWSRF has awarded planning grants to 47 communities for a total of \$723,710. Although the NEP program no longer exists in name, the CWSRF Administrative Cash Fund will continue to fund facility planning grants initiated by the NEP program.

B. GOALS AND ACCOMPLISHMENTS

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

The State of Nebraska agreed to the following conditions in the Operating Agreement and Grant Agreement, all of which have been met.

- Agreement to Accept Payments
- State Laws and Procedures
- State Accounting and Auditing Procedures
- Recipient Accounting and Auditing Procedures
- Use of the Automated Clearinghouse
- Repayments
- Annual Audit
- Annual Report
- Annual Review
- Anti-Lobbying Act

- Drug-Free Workplace
- Rural Area Business Enterprise Development Plan
- First Use of Funds for Enforceable Requirements
- Provide a State Match
- Binding Commitments Within One Year
- Expeditious and Timely Expenditures
- Eligible Activities of the SRF
- MBE/WBE Requirements
- Other Federal Authorities
- State Environmental Review Process (SERP)
- Cash Draw Procedures

Environmental Reviews were conducted on 19 Section 212 projects during SFY2011. It was determined that no Environmental Impact Statements (EIS) were necessary; instead Environmental Assessments (EA) were prepared and Finding of No Significant Impact Statements (FNSI) were issued for 12 projects: Albion, Ansley, Aurora, Carroll, Clarkson, David City, Elm Creek, Hayes Center, Lincoln, Nebraska City, Polk Co. SID #1, and So. Sioux City. Categorical Exclusions (CE) were issued for 7 projects: Blair, Brule, Butler Co. SID #1, Cozad, Kearney, Lawrence, and Paxton. In order to expedite the review process, FNSIs and CEs are no available on-line.

The following 18 SRF wastewater projects initiated operation in SFY2011: Allen, Brule, Cedar Bluffs, Chadron, Dorchester, Elm Creek, Filley, Hartington, Holdrege, Indianola, Lincoln, Omaha, Paxton, Platte Center, Pleasanton, Red Cloud, Tekamah, and Verdigre.

2. Short Term Goals and Accomplishments

Four short term goals were described in the SFY2011 Intended Use Plan (IUP) to be undertaken in SFY2011. The CWSRF has made significant progress toward successful completion of most of its short term goals. The goals are listed and discussed as follows:

1. Increase stakeholder communication efforts during the next IUP development cycle.

The IUP and state Project Priority Lists are subject to public review and comment in accordance with federal statute 40 CFR Part 35. The department held a public hearing for the IUP and state Priority Lists at the regularly scheduled Environmental Quality Council meeting on June 23, 2011 at Fort Robinson, Crawford Nebraska to receive public input and Council approval. The draft IUP and Project Priority Lists were made available 30 days prior to the hearing.

2. Target available loan funds to high priority needs in accordance with the IUP priority list in order to encourage construction of the highest impact water quality improvement projects.

Loan funds were committed to 27 separate communities during SFY2011: Allen, Aurora, Blair, Brule, Butler Co. SID #1 (Clear Lake), Carroll, Clarkson, Cozad, Duncan, Elm Creek, Hartington, Hayes Center, Holdrege, Kearney, Lawrence, Leigh, Lincoln, Nebraska City, Ogallala, Osmond, Paxton, Plattsmouth CSO, Polk Co. SID #1 (Duncan Lakes), Shelby, Stuart, Wayne, and Wolbach.

In addition, loan amendments were provided for 6 communities: Broken Bow (ARRA), Cedar Bluffs (ARRA), Dorchester (ARRA), Leigh, Platte Center (ARRA), and Tekamah (ARRA).

3. Assist communities in correcting onsite wastewater system failures.

Several communities are in the very difficult and expensive process of evaluating wastewater alternatives to replace failing onsite systems.

4. . *Identify projects that qualify for Green Project Reserve Funding.*

Projects in seven communities have been designated as Green Project Reserve. Three communities are listed on the SFY2011 IUP Funding List: Elm Creek, Duncan, and Clarkson. Four communities are listed on the SFY2011 IUP Planning List: Hayes Center, Leigh, Lower Big Blue NRD, and Polk Co. SID #1 (Duncan Lakes).

3. Long Term Goals and Accomplishments

Seven long term goals were included in the SFY2011 Intended Use Plan:

1. *Capitalize the fund at the largest level possible and try to grow the fund at a rate greater than the long-term construction inflation rate of 5%. Review management practices annually to assist in achieving the growth goals. Request EPA capitalization grants and provide state match in a timely manner. Encourage the federal government to continue annual capitalization grants for this fund. Allocate grant funds, match and recycle funds to projects in a timely manner.*

It is our intent to continue to request EPA capitalization grants and obtain state match in a timely manner. We also intend to continue to allocate grant funds, match and recycle funds to projects in a timely manner. Cost-effective project alternatives will be promoted to stretch fund assistance.

2. *Meet with municipalities, consultants and the public every year at the annual stakeholder meetings to obtain their input to identify changes needed in the program to help the SRF fund managers make long-term program management decisions.*

The DEQ completed an annual SRF needs survey during SFY2011, providing candidates for the SFY2012 IUP. Three hundred eighty-four (384) communities responded to the needs survey, identifying one or more needs. The FY2011 public participation process was limited due to budgetary imposed travel restrictions, but additional outreach efforts are planned for the next IUP development cycle.

On March 3, 2011, the draft DWSRF SFY2012 Priority Funding and Planning Lists and Land Acquisition and Source Water Protection Priority Lists were presented along with the proposed DWSRF Priority Ranking System at the Public Forum, held by the NDHHS-DPH in Lincoln. The final drafts of the DWSRF ranking system and project lists were again presented to the Governor's Advisory Council on Public Water Supply on March 11, 2011.

3. *Improve and protect public health and the environment by giving priority to chronic public health and environmental concerns where they are identified by NDEQ, NDHHS-DPH or others.*

Unsewered communities with public health or environmental concerns are placed on the priority list as a result of this effort. Each project is required to undergo extensive facility planning, which includes the review of several alternatives and a cost-effectiveness analysis comparing the appropriateness of the alternatives. Nine unsewered communities were listed on the 2012 IUP Priority List: Danbury, Kilgore, Lake Maloney, Linwood, Lorton, Morse Bluff, Polk County SID #1, Salem, and South Bend.

4. *Pursue more holistic regional and watershed based solutions that address both point and nonpoint source pollution problems and opportunities to use distributed wastewater treatment options where they could be applied.*

The NDEQ/NRD liaison has assisted us with contacts to obtain more relevant and timely information through the natural resources districts. We are also working with other state and federal agencies to improve the environmental review process, particularly in the Platte River corridor.

5. *The SRF program staff commits to work with the Nebraska Environmental Partnerships, the U.S. Department of Agriculture-Rural Development and the Department of Economic Development Community*

Development Block Grant programs to provide affordable financing for municipal pollution prevention and control projects.

The Nebraska Environmental Partnerships is now a part of the SRF program (in SFY2012). We continue the monthly coordination meetings with the other funding agencies to find the best financing options available to Nebraska municipalities for both water and wastewater projects.

6. Look at ways the SRF program can be used to encourage sustainable infrastructure and capacity development concepts with borrowers.

Legislation to expand the SRF was developed to provide extended term loans of up to 30 years and additional subsidization such as forgiveness of principal for disadvantaged communities, or alternative projects to provide for land acquisition, and interest in land necessary for construction to simplify procedures for small systems, to expand loan eligibility to private systems and decentralized systems, and to provide for research grants from the Administration Cash Fund if federal legislation containing these program changes is passed. This legislation has not progressed currently.

7. Encourage green infrastructure concepts and energy recovery, production and conservation in SRF funded projects.

The EPA provided considerable guidance for the SRF program concerning eligible projects under green infrastructure requirements for the FFY2011 federal capitalization grant. We will use this guidance to help develop policies and procedures to encourage green concepts and projects to fund under the SRF program.

C. STATUS OF PROJECTS ON FUNDABLE LIST

The Annual Report reflects the following changes from the original SFY2011 Intended Use Plan approved by the Environmental Quality Council (EQC) on July 15, 2010. Attachment 4 provides more detail on the projects on the Funding Program Project Priority List scheduled to receive CWSRF funding in the form of loan issuance.

D. PROGRAM CHANGES and CHANGES UNDER CONSIDERATION

The minimum interest rate started the year at 2%, but increased to 2.25% in the third quarter. The construction interest rate remained at 2%. We continued to waive the 1% administrative fee for the first year of a loan.

The maximum available for Small Town Grant awards remained at \$850,000 and the financial hardship evaluation procedure as it relates to the project cost and the community's median household income remained the same as the previous year.

The long-time supervisor of the Financial Assistance Section retired in the spring of 2011 and temporary management of the program has been undertaken internally by Water Division management. The SRF Engineering staff was combined with non-SRF Engineering staff in August, 2011. This change will provide for better consistency of Construction Permits and begin to train/educate other Water Division engineers about the SRF program, with the idea of planning for further SRF staff retirements in the future. A staff from the Field Services and Assistance Division was transferred to the Financial Assistance Section and other personnel shifts may occur in the future. A new Financial Assistance Section Supervisor is anticipated to begin work before the end of the calendar year.

E. CWSRF BENEFITS REPORTING

DEQ SRF program staff completed CWSRF benefits reporting (CBR) forms during SFY2011. Copies of the forms that were completed during the year are included as Attachment 6, available on NDEQ's website. This document contains a summary of the reports available.

ATTACHMENT 1
LOAN INVESTMENT STATUS REPORT

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317238	Adams		F	598,777.00	499,611.67	99,165.33	3.16	313,362.44
C317029	Ainsworth		P	519,800.00	519,800.00	0.00	3.50	0.00
C317559	Ainsworth		F	345,000.00	21,402.91	323,597.09	2.00	647,194.18
C317030	Alda		F	116,940.00	67,552.86	49,387.14	3.14	155,075.62
C317478	Allen		F	84,758.00	1,751.07	83,006.93	2.00	166,013.86
C317104	Alvo		F	212,423.00	101,644.36	110,778.64	4.00	443,114.56
C317325	Arlington		F	1,223,435.00	83,373.63	1,140,061.37	3.59	4,092,820.32
C317198	Arnold		F	99,952.00	42,913.75	57,038.25	3.00	171,114.75
C317033	Aurora		P	3,800,000.00	3,800,000.00	0.00	3.31	0.00
C317184	Aurora		F	590,000.00	266,822.48	323,177.52	2.80	904,897.06
C317326	Aurora			3,150,000.00	0.00	0.00	2.25	0.00
C317522	Aurora		F	276,682.00	28,646.84	248,035.16	3.00	744,105.48
C317025	Avoca		F	157,514.00	113,371.47	44,142.53	3.05	134,634.72
C317070	Axtell		F	388,787.00	285,087.30	103,699.70	3.94	408,576.82
C317185	Ayr		F	75,991.00	26,886.43	49,104.57	3.00	147,313.71
C317277	Bancroft		F	1,020,198.00	76,143.63	944,054.37	3.00	2,832,163.11
C317068	Bassett		F	107,752.00	59,948.90	47,803.10	3.00	143,409.30
C317279	Bassett		F	98,231.00	19,992.62	78,238.38	2.57	201,072.64
C317041	Beatrice		F	1,775,315.00	710,318.92	1,064,996.08	3.18	3,386,687.53
C317743	Beatrice		F	98,575.00	4,045.68	94,529.32	2.00	189,058.64
C317017	Bellevue		P	1,857,908.39	1,857,908.39	0.00	5.00	0.00
C317123	Bellevue		P	1,400,000.00	1,400,000.00	0.00	3.30	0.00
C317531	Bellevue			3,800,000.00	65,000.00	3,391,385.00	4.00	13,565,540.00
C317242	Bellwood		F	324,468.00	130,322.67	194,145.33	3.00	582,435.99
C317327	Bertrand		F	639,103.00	142,419.15	496,683.85	2.85	1,415,548.97

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT-STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317167	Big Springs		F	874,849.00	100,623.01	774,225.99	3.00	2,322,677.97
C317638	Blair			324,000.00	0.00	0.00	2.25	0.00
C317243	Bloomfield		F	202,955.00	86,575.55	116,379.45	3.00	349,138.35
C317596	Broken Bow	B A S E		4,222,500.00	0.00	3,294,739.00	2.00	6,589,478.00
C317596	Broken Bow	A R R A		1,263,750.00	0.00	1,263,750.00	0.00	0.00
C317281	Brule		F	131,004.00	40,373.44	90,630.56	3.00	271,891.68
C317690	Brule		F	58,590.00	0.00	58,590.00	2.00	117,180.00
C317284	Butler Co. SID #1		F	205,878.00	139,956.95	65,921.05	3.00	197,763.15
C317764	Butler Co. SID #1			113,700.00	0.00	50,431.00	2.00	100,862.00
C317093	Cairo		F	620,921.00	308,717.60	312,203.40	3.20	999,050.88
C317107	Carroll			375,000.00	0.00	37,145.00	2.25	83,576.25
C317328	Cass Co. SID #5		F	1,107,232.06	243,601.59	863,630.47	3.50	3,022,706.65
C317532	Cedar Bluffs	A R R A	F	511,915.00	0.00	511,915.00	1.33	680,846.95
C317028	Cedar Co. SID #1		P	72,700.00	72,700.00	0.00	3.50	0.00
C317134	Cedar Rapids		F	134,755.00	54,256.35	80,498.65	3.00	241,495.95
C317031	Central City		P	4,000,000.00	4,000,000.00	0.00	3.10	0.00
C317151	Chadron	B A S E	F	2,180,000.00	42,750.00	2,137,250.00	2.00	4,274,500.00
C317151	Chadron	B A S E	F	595,000.00	14,875.00	580,125.00	0.00	0.00
C317151	Chadron	A R R A	F	495,000.00	12,375.00	482,625.00	0.00	0.00
C317329	Chambers		F	67,511.00	23,876.35	43,634.65	3.00	130,903.95
C317477	Chapman		F	359,101.00	47,649.63	311,451.37	3.00	934,354.11
C317533	Clarkson			500,000.00	0.00	0.00	2.00	0.00
C317233	Clay Center		F	180,000.00	169,780.83	10,219.17	3.00	30,657.51
C317427	Coleridge		F	62,379.00	19,795.52	42,583.48	2.50	106,458.70
C317597	Coleridge		F	56,146.00	3,489.10	52,656.90	2.00	105,313.80

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT-STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317468	Concord		F	297,449.00	128,909.73	168,539.27	3.70	623,595.30
C317258	Cook		F	579,956.00	505,224.52	74,731.48	3.00	224,194.44
C317024	Cozad		P	1,453,200.00	1,453,200.00	0.00	5.00	0.00
C317046	Cozad		F	2,460,037.00	1,358,867.71	1,101,169.29	3.12	3,435,648.18
C317634	Cozad			1,825,000.00	0.00	837,925.00	2.00	1,675,850.00
C317081	Crab Orchard		F	65,978.00	23,038.71	42,939.29	3.00	128,817.87
C317731	Creighton		F	220,536.00	9,067.51	211,468.49	2.00	422,936.98
C317139	Dannebrog		F	425,000.00	355,740.36	69,259.64	3.00	207,778.92
C317109	David City		F	2,728,924.00	1,497,925.08	1,230,998.92	3.22	3,963,816.52
C317391	Deshler		F	892,808.00	163,397.17	729,410.83	2.55	1,859,997.62
C317110	DeWitt		F	524,900.00	290,942.88	233,957.12	4.30	1,006,015.62
C317196	Diller		F	301,264.00	121,002.77	180,261.23	3.00	540,783.69
C317565	Dorchester	A R R A	F	503,227.00	0.00	503,227.00	1.33	669,291.91
C317599	Duncan			333,400.00	0.00	310,958.00	2.00	621,916.00
C317484	Dwight		F	307,650.00	28,357.68	279,292.32	3.31	924,457.58
C317203	Eagle		F	218,656.00	140,506.90	78,149.10	3.50	273,521.85
C317225	Eagle		P	1,932,107.00	1,932,107.00	0.00	3.00	0.00
C317606	Elgin		F	92,394.00	5,184.65	87,209.35	3.00	261,628.05
C317111	Elkhorn		P	2,940,673.00	2,940,673.00	0.00	3.33	0.00
C317038	Elm Creek		P	457,101.00	457,101.00	0.00	3.50	0.00
C317607	Elm Creek		F	208,473.00	0.00	208,473.00	2.00	416,946.00
C317392	Ewing		F	67,000.00	17,740.19	49,259.81	2.50	123,149.53
C317338	Exeter		F	54,945.00	15,559.99	39,385.01	3.02	118,942.73
C317061	Fairbury		F	1,931,134.00	971,053.52	960,080.48	3.00	2,880,241.44
C317043	Falls City		F	2,500,000.00	568,753.05	1,931,246.95	2.50	4,828,117.38
C317119	Farwell		F	175,000.00	87,794.06	87,205.94	3.00	261,617.82

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317594	Filley			245,000.00	5,000.00	228,326.00	2.00	456,652.00
C317049	Firth		F	62,716.00	40,862.47	21,853.53	3.56	77,798.57
C317272	Fremont		P	3,200,000.00	3,200,000.00	0.00	3.00	0.00
C317159	Garland		F	331,950.00	57,538.42	274,411.58	3.17	869,884.71
C317059	Gering		F	3,250,000.00	933,021.17	2,316,978.83	2.50	5,792,447.08
C317156	Gibbon		F	1,258,946.00	578,376.69	680,569.31	3.66	2,490,883.67
C317307	Gibbon		F	7,000,000.00	2,241,488.26	4,758,511.74	5.25	24,982,186.64
C317390	Gosper Co. SID #1		F	15,484,961.00	4,997,088.49	10,487,872.51	2.66	27,897,740.88
C317009	Gothenburg		F	2,947,700.00	2,838,575.29	109,124.71	3.50	381,936.49
C317183	Gothenburg		F	630,339.00	15,805.62	614,533.38	3.00	1,843,600.14
C317395	Gothenburg		F	372,105.00	72,119.45	299,985.55	3.05	914,955.93
C317568	Gothenburg	B A S E	F	129,827.00	8,091.29	121,735.71	2.00	243,471.42
C317568	Gothenburg	A R R A	F	75,000.00	3,947.36	71,052.64	0.00	0.00
C317267	Gretna		P	1,875,771.00	1,875,771.00	0.00	3.00	0.00
C317268	Gretna		P	3,238,424.00	3,238,424.00	0.00	3.00	0.00
C317234	Guide Rock		F	321,451.00	5,923.41	315,527.59	3.00	946,582.77
C317004	Hartington		F	544,167.00	403,304.72	140,862.28	3.50	493,017.98
C317341	Hartington		F	82,465.00	1,689.51	80,775.49	2.00	161,550.98
C317291	Hayes Center			306,000.00	0.00	0.00	2.25	0.00
C317053	Hay Springs		F	311,792.00	198,353.81	113,438.19	3.00	340,314.57
C317131	Hebron		F	329,098.00	227,646.55	101,451.45	3.00	304,354.35
C317019	Herman		F	124,865.00	104,126.82	20,738.18	3.50	72,583.63
C317398	Hickman		F	390,000.00	65,845.56	324,154.44	3.50	1,134,540.54
C317213	Holbrook		F	231,000.00	180,404.77	50,595.23	3.00	151,785.69
C317014	Holdrege		P	200,758.00	200,758.00	0.00	4.50	0.00

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317069	Holdrege		P	3,220,228.00	3,220,228.00	0.00	4.18	0.00
C317491	Holdrege			300,702.00	0.00	0.00	2.00	0.00
C317115	Howells		F	346,933.00	76,134.55	270,798.45	2.80	758,235.66
C317343	Indianola		F	756,740.00	476,740.00	280,000.00	3.00	840,000.00
C317292	Jackson		F	54,642.00	15,591.10	39,050.90	3.00	117,152.70
C317021	Kearney		P	3,954,696.00	3,954,696.00	0.00	3.86	0.00
C317275	Kearney		F	2,560,497.00	885,791.36	1,674,705.64	3.39	5,677,252.12
C317789	Kearney			1,250,000.00	0.00	808,312.00	2.00	1,616,624.00
C317057	Kenesaw		F	521,711.00	255,130.05	266,580.95	3.00	799,742.85
C317118	Kennard		P	693,000.00	693,000.00	0.00	2.99	0.00
C317144	Kimball		F	610,000.00	310,639.08	299,360.92	3.15	942,986.90
C317705	Laurel		F	160,000.00	6,509.05	153,490.95	2.00	306,981.90
C317837	Lawrence			80,000.00	0.00	0.00	2.25	0.00
C317447	Leigh			475,000.00	0.00	56,847.00	2.00	113,694.00
C317002	Lexington		P	4,100,000.00	4,100,000.00	0.00	3.50	0.00
C317008	Lincoln		P	9,017,565.54	9,017,565.54	0.00	5.00	0.00
C317078	Lincoln			5,000,000.00	0.00	2,106,413.00	2.00	4,212,826.00
C317247	Lincoln	B A S E		2,500,000.00	48,750.00	2,260,042.00	2.00	4,520,084.00
C317247	Lincoln	A R R A		1,250,000.00	31,250.00	1,218,750.00	0.00	0.00
C317830	Lincoln			17,000,000.00	0.00	0.00	2.25	0.00
C317204	Lindsay		P	405,000.00	405,000.00	0.00	3.14	0.00
C317236	Loomis		F	167,381.00	95,507.33	71,873.67	3.18	228,558.27
C317573	Lower Platte North NRD			6,000,000.00	2,300,000.00	3,700,000.00	3.00	11,100,000.00
C317573	Lower Platte North NRD-AMD#1			6,000,000.00	0.00	5,553,660.00	2.00	11,107,320.00
C317539	Lynch		F	174,300.00	18,869.38	155,430.62	3.00	466,291.86
C317449	Lyons		F	891,491.00	65,868.92	825,622.08	3.00	2,476,866.24

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317405	Madison		P	1,892,461.00	1,892,461.00	0.00	3.06	0.00
C317575	Malcolm	A R R A	F	250,000.00	12,500.00	237,500.00	0.00	0.00
C317575	Malcolm	B A S E	F	500,000.00	20,598.97	479,401.03	2.00	958,802.06
C317259	Maywood		F	184,518.00	65,996.88	118,521.12	3.00	355,563.36
C317105	McCook		P	337,040.99	337,040.99	0.00	3.00	0.00
C317150	McCook		F	1,903,003.00	970,343.96	932,659.04	3.00	2,797,977.12
C317349	McCook		F	4,200,000.00	862,032.89	3,337,967.11	2.50	8,344,917.78
C317451	McCool Junction		F	82,903.00	71,260.66	11,642.34	2.50	29,105.85
C317331	McGrew		F	47,100.00	15,580.70	31,519.30	3.00	94,557.90
C317217	Meadow Grove		F	138,190.00	42,535.36	95,654.64	3.00	286,963.92
C317248	Melbeta		F	259,437.00	9,177.88	250,259.12	3.15	788,316.23
C317169	Memphis		F	83,130.00	48,301.46	34,828.54	3.00	104,485.62
C317250	Murray		F	1,425,000.00	210,037.07	1,214,962.93	2.95	3,584,140.64
C317741	Nebraska City			4,889,865.00	0.00	0.00	2.25	0.00
C317071	Neligh		F	1,653,678.00	623,597.62	1,030,080.38	3.00	3,090,241.14
C317498	Newman Grove		F	333,099.00	18,975.29	314,123.71	3.00	942,371.13
C317431	Nickerson		F	281,011.00	60,402.16	220,608.84	3.24	714,772.64
C317036	Norfolk		P	9,299,999.80	9,299,999.80	0.00	4.18	0.00
C317142	North Bend		F	308,000.00	66,616.74	241,383.26	3.45	832,772.25
C317122	North Platte		F	14,300,000.00	1,598,961.72	12,701,038.28	3.27	41,532,395.18
C317351	North Platte		F	2,221,722.00	724,405.41	1,497,316.59	3.72	5,570,017.71
C317074	Oakdale		F	209,957.00	110,869.27	99,087.73	3.00	297,263.19
C317409	Oakland	B A S E		1,081,000.00	0.00	1,000,557.00	2.00	2,001,114.00
C317409	Oakland	A R R A		540,500.00	0.00	540,500.00	0.00	0.00

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317152	Ogallala		F	2,397,400.00	1,006,521.51	1,390,878.49	3.23	4,492,537.52
C317500	Ogallala			423,000.00	0.00	0.00	2.00	0.00
C317082	Omaha		P	3,432,976.00	3,432,976.00	0.00	3.50	0.00
C317016	Omaha		P	2,830,825.00	2,830,825.00	0.00	3.50	0.00
C317319	Omaha		P	20,000,000.00	20,000,000.00	0.00	3.50	0.00
C317052	Omaha GIS		P	1,810,894.00	1,810,894.00	0.00	3.50	0.00
C317005	Omaha Monroe		P	4,000,000.00	4,000,000.00	0.00	3.80	0.00
C317182	Omaha		P	1,600,000.00	1,600,000.00	0.00	3.00	0.00
C317079	Omaha		P	10,000,000.00	10,000,000.00	0.00	3.00	0.00
C317311	Omaha NPS		F	898,294.00	745,922.47	152,371.53	3.00	457,114.59
C317375	Omaha		P	12,100,000.00	12,100,000.00	0.00	4.00	0.00
C317432	Omaha	A R R A		1,022,500.00	0.00	1,022,500.00	0.00	0.00
C317432	Omaha	B A S E		3,750,000.00	0.00	3,749,023.00	2.00	7,498,046.00
C317432	Omaha	B A S E		819,500.00	0.00	818,523.00	0.00	0.00
C317476	Omaha			7,500,000.00	0.00	5,065,288.00	2.00	10,130,576.00
C317205	Osmond			107,000.00	0.00	62,873.00	2.00	125,746.00
C317229	Oxford		F	865,353.00	176,905.52	688,447.48	2.77	1,906,999.52
C317414	Palmer		F	182,000.00	21,304.13	160,695.87	2.79	448,341.48
C317414	Palmer		P	472,028.00	472,028.00	0.00	3.00	0.00
C317353	Paxton		F	1,352,254.00	368,313.01	983,940.99	2.50	2,459,852.48
C317807	Paxton		F	32,300.00	1,500.00	30,800.00	2.00	61,600.00
C317087	Pickrell		F	350,000.00	142,342.81	207,657.19	4.00	830,628.76
C317060	Plainview		F	968,910.00	114,495.25	854,414.75	2.75	2,349,640.56
C317745	Platte Center	A R R A		129,337.00	0.00	128,477.00	2.00	256,954.00
C317526	Plattsmouth			999,810.00	0.00	713,412.00	2.00	1,426,824.00
C317266	Pleasanton		F	117,076.00	55,790.69	61,285.31	3.00	183,855.93

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317744	Pleasanton	A R R A	F	232,817.00	4,762.41	228,054.59	2.00	456,109.18
C317035	Polk		F	81,453.00	62,838.45	18,614.55	3.50	65,150.93
C317696	Polk Co. SID #1			2,212,847.00	0.00	0.00	2.25	0.00
C317506	Red Cloud	A R R A	F	372,404.00	8,332.61	364,071.39	1.33	484,214.95
C317073	Rising City		F	350,340.00	64,196.50	286,143.50	2.55	729,665.93
C317101	Riverton		F	140,442.00	81,951.78	58,490.22	3.00	175,470.66
C317188	Rushville		F	1,035,000.00	413,471.47	621,528.53	3.00	1,864,585.59
C317416	Ruskin		F	271,020.00	61,623.68	209,396.32	2.50	523,490.80
C317027	St. Helena		F	70,695.00	58,923.59	11,771.41	3.50	41,199.94
C317263	St. Paul		F	306,513.00	55,032.17	251,480.83	2.82	709,175.94
C317128	Sarpy Co. SID #101		F	4,785,104.84	3,947,565.36	837,539.48	3.00	2,512,618.44
C317195	Schuyler		F	579,336.00	316,913.26	262,422.74	3.00	787,268.22
C317215	Schuyler		F	2,481,856.00	637,681.45	1,844,174.55	3.01	5,550,965.40
C317001	Scottsbluff		P	2,453,873.39	2,453,873.39	0.00	3.26	0.00
C317086	Scottsbluff		F	4,600,000.00	2,424,265.11	2,175,734.89	3.00	6,527,204.67
C317219	Scottsbluff	A R R A	F	2,527,500.00	118,557.33	2,408,942.67	1.33	3,203,893.75
C317378	Scottsbluff		F	1,004,334.00	338,362.03	665,971.97	3.00	1,997,915.91
C317813	Shelby			365,625.00	0.00	0.00	2.25	0.00
C317062	Shelton		F	493,043.00	309,105.18	183,937.82	3.37	619,870.45
C317301	Shelton		F	1,071,763.00	406,647.54	665,115.46	3.00	1,995,346.38
C317189	Sidney	A R R A	F	1,375,000.00	68,750.00	1,306,250.00	0.00	0.00
C317189	Sidney	B A S E	F	2,750,000.00	114,195.58	2,635,804.42	2.00	5,271,608.84
C317433	Sidney		F	819,924.00	250,121.80	569,802.20	2.52	1,435,901.54
C317508	Silver Creek		F	175,165.00	23,363.97	151,801.03	2.75	417,452.83

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317360	South Sioux City		F	3,112,135.00	219,095.47	2,893,039.53	3.65	10,559,594.28
C317725	South Sioux City	B A S E		1,150,000.00	0.00	877,606.00	2.00	1,755,212.00
C317725	South Sioux City	A R R A		575,000.00	0.00	551,887.00	0.00	0.00
C317080	Stamford		P	395,400.00	395,400.00	0.00	2.50	0.00
C317164	Stanton		F	1,053,787.00	450,136.93	603,650.07	3.00	1,810,950.21
C317011	Sterling		F	177,430.00	166,759.93	10,670.07	3.50	37,345.25
C317048	Stromsburg		P	599,516.00	599,516.00	0.00	3.04	0.00
C317320	Stromsburg		F	156,000.00	61,640.83	94,359.17	3.30	311,385.26
C317510	Stuart			62,500.00	0.00	0.00	2.00	0.00
C317096	Superior		P	341,898.00	341,898.00	0.00	3.00	0.00
C317364	Sutherland		F	165,880.00	78,691.85	87,188.15	2.50	217,970.38
C317190	Sutton		F	1,505,100.00	493,839.74	1,011,260.26	3.12	3,155,132.01
C317231	Tecumseh		F	370,629.00	166,911.59	203,717.41	3.00	611,152.23
C317051	Tekamah		F	1,297,286.00	753,827.75	543,458.25	3.00	1,630,374.75
C317252	Tekamah	A R R A		603,944.00	0.00	534,321.00	2.00	1,068,642.00
C317252	Tekamah	A R R A		301,972.00	0.00	267,158.00	0.00	0.00
C317367	Valley		F	4,510,111.00	375,000.00	4,135,111.00	3.21	13,273,706.31
C317023	Verdigre		P	30,410.00	30,410.00	0.00	3.00	0.00
C317434	Verdigre		F	112,211.00	33,576.71	78,634.29	2.50	196,585.73
C317460	Verdigre		F	200,000.00	6,000.00	194,000.00	3.00	582,000.00
C317746	Verdigre		P	1,403,627.00	1,403,627.00	0.00	2.00	0.00
C317220	Waco		P	100,300.00	100,300.00	0.00	3.00	0.00
C317010	Wahoo		F	4,515,601.00	1,240,349.34	3,275,251.66	3.49	11,430,628.29
C317369	Wayne			6,750,000.00	0.00	1,977,762.00	2.00	3,955,524.00

PROJ. #	COMMUNITY NAME	PROJ IDENT	STATUS	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUT--STANDING BALANCE	INTEREST RATE	EARNING FACTOR
C317659	Western		F	69,863.00	2,874.00	66,989.00	2.00	133,978.00
C317040	West Point		P	195,000.00	195,000.00	0.00	3.50	0.00
C317055	West Point		F	5,116,139.00	1,123,702.20	3,992,436.80	2.94	11,737,764.19
C317129	Wilber		F	570,000.00	331,027.65	238,972.35	3.00	716,917.05
C317012	Wisner		F	1,156,786.00	436,530.08	720,255.92	3.01	2,167,970.32
C317098	Wymore		F	248,700.00	186,533.13	62,166.87	3.00	186,500.61
C317552	Wymore		F	402,800.00	72,178.53	330,621.47	3.00	991,864.41

SUMMARY

	AMOUNT (LOAN ALLOCATIONS)	REDUCTIONS (PRINCIPAL REPAYMENTS)	OUTSTANDING BALANCE	EARNING FACTOR	BLENDED LOAN RATE
LOAN TOTAL	\$367,796,681.01	\$173,676,816.76	\$149,399,982.25	\$398,367,967.69	2.666

**ATTACHMENT 2
BINDING COMMITMENTS**

		<u>STATE FISCAL YEAR 2010</u>				<u>STATE FISCAL YEAR 2011</u>			
COMMUNITY NAME	PROJECT #C31	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
PROGRAM ADMINISTRATION - 4th QTR 2009		163,954							
MALCOLM ARRA	7575	1,000,000							
SIDNEY ARRA	7189	5,500,000							
CHADRON ARRA	7151	4,000,000							
TEKAMAH ARRA	7252	1,738,000							
DORCHESTER ARRA	7565	1,033,000							
GOSPER CO SID #1 (JOHNSON LAKE) AMD #1	7390	734,961							
WESTERN	7659	72,500							
CEDAR BLUFFS ARRA	7532	1,000,000							
LINCOLN	7078	5,000,000							
LINCOLN ARRA	7247	5,000,000							
LPN-NRD (LAKE WANAHOO) AMD #1	7573	6,000,000							
SOUTH SIOUX CITY ARRA	7725	2,300,000							
BEATRICE	7743		113,075						
LAUREL	7705		160,000						
CREIGHTON	7731		225,000						
OMAHA ARRA	7432		7,500,000						
OMAHA	7476		7,500,000						
PLEASANTON ARRA	7744			410,630					
RED CLOUD ARRA	7506			501,300					
CHADRON ARRA AMD #1	7151			360,000					
PLATTE CENTER ARRA	7745			217,536					
VERDIGRE	7746			1,564,000					
GUIDE ROCK AMD #1	7234				25,000				
FILLEY	7594				245,000				
PROGRAM ADMINISTRATION - 4th QTR 2010						166,400			
LEIGH	7447					475,000			
BROKEN BOW ARRA AMD #1	7596					1,695,000			
HARTINGTON	7341					155,000			
PLATTSMOUTH	7526					1,249,810			
ALLEN	7478					157,500			

COMMUNITY NAME	PROJECT #C31	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
OSMOND	7205					214,000			
KEARNEY	7789					1,250,000			
DUNCAN	7599						493,000		
BUTLER COUNTY SID #1	7764						134,000		
WAYNE	7369						7,000,000		
PAXTON	7807						68,000		
ELM CREEK	7607						415,000		
OGALLALA	7500						673,000		
BRULE	7690							125,000	
COZAD	7634							2,075,000	
HOLDREGE	7491							460,000	
CEDARS BLUFFS ARRA AMD #1	7532							145,462	
STUART	7510							125,000	
LEIGH AMD #1	7447							155,000	
LINCOLN	7830							17,000,000	
LAWRENCE	7837							160,000	
PLATTE CENTER ARRA AMD #1	7745							9,384	
HAYES CENTER	7291							306,000	
SHELBY	7813							365,625	
WOLBACH	7723							50,000	
NEBRASKA CITY	7741								5,000,000
BLAIR	7638								400,000
CARROLL	7107								500,000
DORCHESTER ARRA AMD #1	7565								5,153
TEKAMAH ARRA AMD #1	7252								30,204
CLARKSON	7533								750,000
AURORA	7326								3,400,000
POLK COUNTY SID #1	7696								2,212,847

SUMMARY	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
(1) BINDING COMMITMENT TOTALS	33,542,415	15,498,075	3,053,466	270,000	5,362,710	8,783,000	20,976,471	12,298,204
(2) CUMUMLATIVE BINDNG COMMITMENTS	355,279,934	370,778,009	373,831,475	374,101,475	379,464,185	388,247,185	409,223,656	421,521,860
FY BINDING COMMITMENT TOTALS			FY10:	52,363,956			FY11:	47,420,385
(3) REQUIRED BINDING COMMITMENT*	4,098,840		20,045,000		12,506,400			
(4) CUMULATIVE REQUIRED AMOUNT	159,612,836	159,612,836	179,657,836	179,657,836	192,164,236	192,164,236	192,164,236	192,164,236
(5) BC AS % OF REQ'D BC AMOUNT	223	232	208	208	197	202	213	219

*120% OF FEDERAL PAYMENTS
LAGGED BY A YEAR

**ATTACHMENT 3
SMALL TOWN GRANTS HISTORY**

								First Half SFY2012	Second Half SFY2012	First Half SFY2013	Second Half SFY2013
COMMUNITY NAME	PROJE CT #C31	SFY PROG YEAR	GRANT AWARD DATE	STATE GRANT %	STATE GRANT AMOUNT	PAID PRIOR TO SFY 2012	PAID DURING SFY 2012	ESTIMATED 12-31-11	ESTIMATED 6-30-12	ESTIMATED 12-31-12	ESTIMATED 6-30-13
STERLING SFY90 ALLOCATION TOTAL	7011-01	90	6/26/1990	50	177,430	177,430					
					177,430						
HERMAN	7019-01	91	5/31/1991	24	124,864	124,864					
ST. HELENA SFY91 ALLOCATION TOTAL	7027-01	91	5/24/1991	50	70,695	70,695					
					195,559						
CEDAR CO. SID#1 SFY92 ALLOCATION TOTAL	7028-01	92	9/1/1992	50	72,700	72,700					
					72,700						
POLK SFY93 ALLOCATION TOTAL	7035-01	93	6/4/1993	50	81,453	81,453					
					81,453						
AVOCA	7025-01	94	5/23/1994	48	119,360	119,360					
AXTELL	7070-01	94	6/21/1994	13.85	62,150	62,150					
RIVERTON SFY94 ALLOCATION TOTAL	7101-01	94	6/6/1994	50	91,100	91,100					
					272,610						
HAY SPRINGS	7053-01	95	8/23/1994	50	200,971	200,971					
VERDIGRE	7023-01 & 02	95	11/16/199 4	50	30,410	30,410					
FIRTH	7049-01	95	4/13/1995	33	27,200	27,200					
AVOCA SFY95 ALLOCATION TOTAL	7025-02	95	6/29/1995	48	17,000	17,000					
					275,581						

								First Half SFY2012	Second Half SFY2012	First Half SFY2013	Second Half SFY2013
COMMUNITY NAME	PROJE CT #C31	SFY PROG YEAR	GRANT AWARD DATE	STATE GRANT %	STATE GRANT AMOUNT	PAID PRIOR TO SFY 2012	PAID DURING SFY 2012	ESTIMATED 12-31-11	ESTIMATED 6-30-12	ESTIMATED 12-31-12	ESTIMATED 6-30-13
HAY SPRINGS	7053-02	96	8/25/1995	50	48,500	48,500					
HAY SPRINGS	7053-03	96	2/15/1996	40	57,500	57,500					
FIRTH	7049-02	96	3/14/1996	33	4,800	4,800					
RIVERTON SFY96 ALLOCATION TOTAL	7101-02	96	6/7/1996	50	49,345	49,345					
					160,145						
BASSETT	7068-01	97	2/27/1997	50	105,250	105,250					
ALDA SFY97 ALLOCATION TOTAL	7030-01	97	4/30/1997	42	83,060	83,060					
					188,310						
SFY98 ALLOCATION TOTAL					0						
CRAB ORCHARD SFY99 ALLOCATION TOTAL	7081-01	99	11/28/1998	5	1,700	1,700					
					1,700						
CRAB ORCHARD AMD#1	7081-01	2000	3/13/2000	5	20,291	20,291					
ARNOLD	7198-01	2000	4/11/2000	50	92,500	92,500					
CEDAR RAPIDS	7134-01	2000	6/14/2000	50	105,000	105,000					
PLEASANTON SFY2000 ALLOCATION TOTAL	7266-01	2000	6/27/2000	9.3	12,005	12,005					
					229,796						

								First Half SFY2012	Second Half SFY2012	First Half SFY2013	Second Half SFY2013
COMMUNITY NAME	PROJE CT #C31	SFY PROG YEAR	GRANT AWARD DATE	STATE GRANT %	STATE GRANT AMOUNT	PAID PRIOR TO SFY 2012	PAID DURING SFY 2012	ESTIMATED 12-31-11	ESTIMATED 6-30-12	ESTIMATED 12-31-12	ESTIMATED 6-30-13
CEDAR RAPIDS AMD#1	7134-01	2001	8/25/2000	50	29,755	29,755					
ARNOLD AMD#1	7198-01	2001	9/18/2000	50	7,451	7,451					
DILLER	7196-01	2001	10/16/2000	24	95,658	95,658					
AYR	7185-01	2001	0	50	90,750	90,750					
BELLWOOD	7242-01	2001	3/14/2001	38	100,000	100,000					
DANNEBROG	7139-01	2001	5/7/2001	50	100,000	100,000					
SFY2001 ALLOCATION TOTAL					423,614						
MAYWOOD	7259-01	2002	11/29/2000	50	67,314	67,314					
HOLBROOK	7213-01	2002	1	25	100,000	100,000					
BRULE	7281-01	2002	12/3/2001	43	97,029	97,029					
CHAMBERS	7329-01	2002	12/11/2000	50	67,511	67,511					
MCGREW	7331-01	2002	1	50	47,100	47,100					
SFY2002 ALLOCATION TOTAL					378,954						
ADAMS	7238-01	2003	5/7/2002	42	100,000	100,000					
MEADOW GROVE	7217-01	2003	9/12/2002	39.28	89,394	89,394					
LINDSAY	7204-01	2003	1/29/2003	19.8	100,000	100,000					
JACKSON	7292-01	2003	6/10/2003	48.2	50,846	50,846					
COOK	7258-01	2003	6/23/2003	14.7	100,000	100,000					
EXETER	7338-01	2003	6/25/2003	41.4	38,833	38,833					
SFY2003 ALLOCATION TOTAL					479,073						

								First Half SFY2012	Second Half SFY2012	First Half SFY2013	Second Half SFY2013
COMMUNITY NAME	PROJE CT #C31	SFY PROG YEAR	GRANT AWARD DATE	STATE GRANT %	STATE GRANT AMOUNT	PAID PRIOR TO SFY 2012	PAID DURING SFY 2012	ESTIMATED 12-31-11	ESTIMATED 6-30-12	ESTIMATED 12-31-12	ESTIMATED 6-30-13
PAXTON	7353-01	2004	9/30/2003	5.83	83,717	83,717					
FALLS CITY	7043-01	2004	2/4/2004	2.44	100,000	100,000					
MADISON	7405-01	2004	2/25/2004	4.68	100,000	100,000					
RUSKIN	7416-01	2004	3/18/2004	48.66	100,000	100,000					
BERTRAND	7327-01	2004	3/22/2004	10	100,000	100,000					
SFY2004 ALLOCATION TOTAL					483,717						
GARLAND	7159-01	2005	11/30/2004	24.27	100,000	100,000					
RISING CITY	7073-01	2005	12/16/2004	22.20	100,000	100,000					
VALLEY	7367-01	2005	1/7/2005	2.02	100,000	100,000					
PALMER	7414-01	2005	1/12/2005	15.04	100,000	100,000					
OXFORD	7229-01	2005	1/28/2005	7.14	100,000	100,000					
SFY2005 ALLOCATION TOTAL					500,000						
MURRAY	7250-01	2006	9/13/2005	1.27	18,294	18,294					
DWIGHT	7484-01	2006	3/31/2006	27.07	93,030	93,030					
KENNARD	7118-01	2006	4/4/2006	12.61	100,000	100,000					
MURRAY	7250-01	2006	5/16/2006	5.66	81,706	81,706					
SFY2006 ALLOCATION TOTAL					293,030						
CONCORD	7468-01	2007	2/26/2007	15.72	58,000	58,000					
BANCROFT	7277-01	2007	3/19/2007	12.6	100,000	100,000					
CHAPMAN	7477-01	2007	4/4/2007	19.23	100,000	100,000					
INDIANOLA	7343-01	2007	4/19/2007	9.07	75,481	75,481					
SFY2007 ALLOCATION TOTAL					333,481						

								First Half SFY2012	Second Half SFY2012	First Half SFY2013	Second Half SFY2013
COMMUNITY NAME	PROJE CT #C31	SFY PROG YEAR	GRANT AWARD DATE	STATE GRANT %	STATE GRANT AMOUNT	PAID PRIOR TO SFY 2012	PAID DURING SFY 2012	ESTIMATED 12-31-11	ESTIMATED 6-30-12	ESTIMATED 12-31-12	ESTIMATED 6-30-13
MELBETA	7428-01	2008	6/11/2008	24.1	82,359	82,359					
GUIDE ROCK	7234-01	2008	6/12/2008	25	100,000	100,000					
CONCORD INCREASE	7468-01	2008	6/24/2008	8.61	42,000	42,000					
SFY2008 ALLOCATION TOTAL					224,359						
VERDIGRE	7460-01	2009	8/4/2008	50	200,000	200,000					
DWIGHT INCREASE	7484-01	2009	12/1/2008	9.13	6,970	6,970					
AINSWORTH	7559-01	2009	5/13/2009	57.97	200,000	200,000					
COLERIDGE	7597-01	2009	6/11/2009	50	56,146	56,146					
SFY2009 ALLOCATION TOTAL					463,116						
WESTERN	7659-01	2010	8/14/2009	50	69,863	69,863					
FILLEY	7594-01	2010	4/26/2010	43.02	185,000	176,160		8,840			
LEIGH	7447-01	2010	6/29/2010	28.41	250,000	56,012	12,183	100,000	81,805		
SFY2010 ALLOCATION TOTAL					504,863						
CEDAR BLUFFS ARRA AMD #1	7532-01	2011	1/20/2011	7.26	48,488	48,488					
PLATTE CENTER ARRA AMD #1	7745-01	2011	3/22/2011	3.28	6,566	6,096	470				
HAYES CENTER	7291-01	2011	3/22/2011	44.96	250,000			125,000	125,000		
CARROLL	7107-01	2011	4/1/2011	33.33	250,000	24,762	87,347	70,000	67,891		
DORCHESTER ARRA AMD #1	7565-01	2011	4/4/2011	0.27	1,718	1,718					
TEKAMAH ARRA AMD #1	7252-01	2011	5/11/2011	0.83	10,068			10,068			
POLK COUNTY SID #1	7696-01	2011	6/30/2011	9.11	221,796		29,074	64,000	64,000	64,722	
SFY2011 ALLOCATION TOTAL					788,636						

								First Half SFY2012	Second Half SFY2012	First Half SFY2013	Second Half SFY2013
COMMUNITY NAME	PROJE CT #C31	SFY PROG YEAR	GRANT AWARD DATE	STATE GRANT %	STATE GRANT AMOUNT	PAID PRIOR TO SFY 2012	PAID DURING SFY 2012	ESTIMATED 12-31-11	ESTIMATED 6-30-12	ESTIMATED 12-31-12	ESTIMATED 6-30-13
PRIOR APPROPRIATIONS PLUS TRANSFERS					1,655,284						
FY01 Fee					423,614						
FY02 Fee					378,954						
FY03 Fee					479,073						
FY04 Fee					483,717						
FY05 Fee					500,000						
FY06 Fee					293,030						
FY07 Fee					333,481						
FY08 Fee					224,359						
FY09 Fee					463,116						
FY10 Fee					504,863						
FY11 Fee					788,636						
CURRENT APPROPRIATIONS PLUS TRANSFERS					6,528,127						
PRIOR DISBURSEMENTS							5,617,727				
CURRENT DISBURSEMENTS								129,074			
PROJECTED DISBURSEMENTS								377,908	338,696	64,722	-
JULY 1, 2010 FUND BALANCE PLUS TRANSFERS								910,400			
JUNE 30, 2011 FUND BALANCE								781,326			
PROJECTED FUND BALANCE								403,418	64,722	-	-

ATTACHMENT 4

PROJECTS ON THE FUNDING PROGRAM PROJECT PRIORITY LIST SCHEDULED TO RECEIVE CWSRF FUNDING								
SFY 2011 Funding List - Planned				SFY2011 Funding List - Funded				
FACILITY	P or F	ESTIMATED PROJECT COST	2011 IUP ESTIMATED LOAN AMOUNT	TOTAL ASSISTANCE	ACTUAL FORGIVENESS &/OR SMALL TOWN GRANT	NET LOAN AMOUNT	AGREEMENT DATE / QUARTER	COMMENTS
Allen	F	157,500	157,500	145,432	60,674	84,758	SFY2011-Q1	
Ansley	F		1,900,000	0				Delayed due to land acquisition problems. Moved to 2011 IUP Funding List. (250,000 potential Principal Forgiveness)
Aurora	F	3,400,000	2,500,000	3,400,000	250,000	3,150,000	SFY2011-Q4	
Brule	F	125,000	100,000	117,179	58,589	58,590	SFY2011-Q3	
Butler Co. SID #1 (Clear Lake)	F	134,000	130,000	134,000	20,300	113,700	SFY2011-Q2	
Carroll	F	500,000	750,000	750,000	375,000	375,000	SFY2011-Q4	
Clarkson - Green Project	F	750,000	800,000	750,000	250,000	500,000	SFY2011-Q4	
Cozad	F	2,075,000	2,020,000	2,075,000	250,000	1,825,000	SFY2011-Q3	
Duncan - Green Project	F	493,000	500,000	493,000	159,600	333,400	SFY2011-Q2	
Eagle	F		300,000	0				Chose other funding.
Elm Creek -Green Project	F	415,000	415,000	394,835	186,362	208,473	SFY2011-Q2	
Hartington	F	155,000	200,000	146,578	64,113	82,465	SFY2011-Q1	
Holdrege	F	460,000	460,000	459,263	158,561	300,702	SFY2011-Q3	
Kearney	F	1,250,000	1,575,000	1,250,000	0	1,250,000	SFY2011-Q1	
Lincoln	F	17,000,000	1,370,000	17,000,000	0	17,000,000	SFY2011-Q3	
Nebraska City	F	5,000,000	4,000,000	5,000,000	110,135	4,889,865	SFY2011-Q4	
Ogallala	F	673,000	673,000	673,000	250,000	423,000	SFY2011-Q2	
Omaha	F		10,900,000	0				Chose other funding.
Osmond	F	214,000	214,000	214,000	107,000	107,000	SFY2011-Q1	
Plattsmouth	F	1,249,810	1,206,000	1,249,810	250,000	999,810	SFY2011-Q1	
Polk Co. SID #1 (Duncan Lakes)	F	2,212,847	2,853,000	2,434,643	221,796	2,212,847	SFY2011-Q4	
Shelby	F	365,625	390,000	365,625	0	365,625	SFY2011-Q3	
Stuart	F	125,000	546,090	125,000	62,500	62,500	SFY2011-Q3	
Ulysses	F		465,000	0				No movement on project.
Wayne	F	7,000,000	7,000,000	7,000,000	250,000	6,750,000	SFY2011-Q2	
Wolbach	F	50,000	315,000	50,000	25,000	25,000	SFY2011-Q3	
SFY2011 Planing List - Bypass Systems				SFY2011 Funded Program				
Blair	P	400,000	400,000	400,000	76,000	324,000	SFY2011-Q4	Funded per SFY2011 Bypass Criteria.
Hayes Center - Green Project	P	306,000	906,000	556,000	250,000	306,000	SFY2011-Q3	Funded per SFY2011 Bypass Criteria.
Lawrence	P	160,000	89,600	160,000	80,000	80,000	SFY2011-Q3	Funded per SFY2011 Bypass Criteria.
SFY2011 - Emergency Funding								
Paxton		68,000	500,000	64,600	32,300	32,300	SFY2011-Q2	Replacement of 4" force main across the South Platte River which had been eroded to the surface by high water.

ATTACHMENT 5

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

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

JULY 1, 2009 THROUGH JUNE 30, 2010

**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 December 6, 2010

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program (Program) was established pursuant to Title VI of the Federal Clean Water Act, as amended by the Water Quality Act of 1987. Neb. Rev. Stat. § 81-15,147 created the Wastewater Treatment Facilities Construction Assistance Act. The Federal Water Quality Act and State statutes established the Clean Water State Revolving Fund Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of the building of wastewater treatment facilities, the Program provides for low interest loans to finance the entire cost of qualified projects. The Program provides a flexible financing source which can be used for a variety of projects. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must be used for the purposes of the Program. The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of grants starting in 1989. States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2010, the EPA had awarded \$157 million in Capitalization grants to the State. Of the \$157 million awarded, approximately \$20 million was funded by the American Recovery and Reinvestment Act (ARRA). The \$137 million not funded by ARRA required the State to contribute approximately \$27 million in matching funds. The State provided appropriations to contribute \$955 thousand of the funds to meet the State's matching requirement for the first Capitalization grant. Additional matching funds were obtained through the issuance of revenue bonds.

The Program is administered by the Nebraska Department of Environmental Quality (Department). The Department's primary activities with regard to the Program include the making of loans for water pollution control facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department and the Program's Intended Use Plan.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

SUMMARY OF COMMENTS

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

1. ***Financial Statement Errors:*** Errors were noted in the financial information prepared by the Agency's accounting staff and were noted on the trial balance prepared by the Agency. Trial balance amounts are carried forward to the financial statements.
2. ***Loan Testing:*** Documentation of loan files could be improved.
3. ***Reporting:*** Certain Federal reports were not filed with the EPA and control procedures over reports could be improved.
4. ***Allowable Administration Costs:*** Documentation of "potential SRF projects" and allowable administration costs could be improved.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Agency to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

1. Financial Statement Errors

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

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

The financial statements were adjusted for the errors noted.

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

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Financial Statement Errors (Concluded)

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

Contact: Martie Guthrie, Budget Officer III

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

2. Loan Testing

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

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

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

Criteria: 2 C.F.R. § 176.210(c) (April 23, 2009) states, “Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.”

2 C.F.R. § 176.210(d) (April 23, 2009) states, “Recipients agree to require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditure of ARRA funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office.”

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Loan Testing (Continued)

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

Condition: Documentation of loan files could be improved.

Questioned Costs: Unknown

Context: During testing it was noted:

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

Cause: Unknown

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

Recommendation: We recommend the following:

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Loan Testing (Concluded)

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

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

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

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

Anticipated Completion Date: January 1, 2011

3. Reporting

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

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

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Reporting (Continued)

Questioned Costs: Unknown

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

Cause: Unknown

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

Recommendation: We recommend the Agency improve reporting procedures to:

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

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

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

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

Contact: Martie Guthrie, Budget Officer III

Anticipated Completion Date: Completed

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Reporting (Concluded)

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

4. Allowable Administration Costs

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

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

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Allowable Administration Costs (Continued)

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

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

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

Questioned Costs: Unknown

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

Cause: Unknown

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Allowable Administration Costs (Concluded)

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

Management Response: The Nebraska Department of Environmental Quality (NDEQ) has and continues to use the 4% State Revolving Fund Administrative Fee in compliance with 40 CFR Part 35.3120(g). Additionally, in 2008, the NDEQ obtained written documentation for uses of the administrative fee from Sheila Platt in the EPA's Washington, D.C. Office. The documentation from Sheila Platt is used by NDEQ employees who prepare and review time as support for charging engineering reviews for potential SRF projects to the SRF program. This documentation was provided to the State Auditors.

Corrective Action Plan: From the EPA's website, a potential State Revolving Fund project is defined as the capacity of potential recipients of loans from the State Revolving Fund, where capacity means the technical, financial, and managerial capabilities of a water system for proper long-term operations. The Agency has contacted the Director of EPA's Office of Wastewater Management to obtain written assurance that this is the definition of a "potential SRF projects." Per the Auditor's recommendation, the NDEQ will also obtain formal, written approval again from EPA that potential SRF projects are part of the administration of the SRF program. However, the Agency feels this is redundant, since the Agency has written documentation from Sheila Platt, who is in the EPA's Washington, D.C. office. This documentation was provided to the State Auditors.

The Agency will comply with the State Auditor's recommendation to develop written procedures for charging time to the SRF program. However, there have not been any problems resulting from following the current system for establishing and managing time categories when requested by program administrators.

Contact: Pat Rice, Water Quality Division Assistant Director

Anticipated Completion Date: March 31, 2011



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITORS' REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the accompanying financial statements of the business type activities of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program (Program), as of and for the year ended June 30, 2010, which collectively comprise the Program's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program, are intended to present the financial position and changes in financial position of only that portion of the business type activities of the State that is attributable to the transactions of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program. They do not purport to, and do not, present fairly the financial position of the business type activities of the State of Nebraska as of June 30, 2010, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010, on our consideration of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In accordance with the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, we have also issued our report dated November 10, 2010, on our consideration of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance with certain provisions of laws, regulations, and grants.

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

Signed Original on File

November 10, 2010

Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Nebraska Department of Environmental Quality (Department) - Clean Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2010. This analysis has been prepared by management of the Department, and is intended to be read in conjunction with the Program's financial statements and related footnotes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The Program's basic financial statements include: 1) Balance Sheet, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Balance Sheet presents information on all of the Program's assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Program's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents the Program's flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the Program's cash receipts and payments during the year.

The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

AMERICAN RECOVERY AND REINVESTMENT FUNDS

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

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

The \$20 million in ARRA funds was blended with approximately \$34 million of Nebraska's existing CWSRF loan funds. Prior to the addition of ARRA funds, the 2009 CWSRF Intended Use Plan had targeted six communities to receive low-interest loans in 2009, with numerous others communities awaiting future funding. The addition of the ARRA funds expanded this list

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

to 16 communities that received a combination of low-interest loans and principal forgiveness. These communities were offered a package including a 50 percent low interest loan from existing State CWSRF funding, a 25 percent no-interest loan of ARRA funds, and 25 percent principal forgiveness of ARRA funds. ARRA requires the State to use at least 50% of the ARRA funds supplied by this grant to provide additional subsidization which the State elected to do in the form of principal forgiveness.

ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND

Changes in Net Assets

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

(Continued)

ECONOMIC OUTLOOK

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

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

DEBT ADMINISTRATION

Short -Term Debt

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
 JUNE 30, 2010

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

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

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
 For the Year Ended June 30, 2010

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environmental Quality (Department) - Clean Water State Revolving Fund Program (Program) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS).

B. Reporting Entity

The Clean Water State Revolving Fund Program is a program within the Department and is established under and governed by the Clean Water Act of the Federal Government and by laws of the State of Nebraska. The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Program's management has also considered all potential component units of the Program for which it is financially accountable, and other organizations which are fiscally dependent on the Program's management, or the significance of their relationship with the Program's management are such that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

As required by generally accepted accounting principles, these financial statements present the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. It includes the following funds as identified in the Wastewater Treatment Facilities Construction Assistance Act:

- Clean Water Facilities Funds – General Fund 10000, Federal Funds 48412 and 48413, and Bond Funds 68470, 68471, 68472, and 68473.
- Administration Funds – Cash Funds 28460, 28461, and 28462.

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

The activity of these ten State of Nebraska funds have been combined and reported as an enterprise fund, which under governmental GAAP is a proprietary fund type. This fund type reflects transactions used to account for those operations that are financed and operated in a manner similar to a private business. The accounting for the Program's transactions in this manner is a requirement of the Environmental Protection Agency (EPA) as they and the Department have decided that the determination of the revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA the Program will be available in perpetuity as intended.

This fund classification differs from the classification used in the State of Nebraska's Comprehensive Annual Financial Report (CAFR). The CAFR classifies the Cash funds, Federal funds, and Bond funds as Special Revenue funds because the major source of revenue is Federal assistance.

D. Measurement Focus, Basis of Accounting

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

Enterprise funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

In reporting the financial activity of its enterprise fund, the Program's management applied all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989; unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

E. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2010, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and Cash Equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

F. Loans Receivable

The State operates the Program as a direct loan program, whereby loans are made to communities. The entire Clean Water Program is funded, on average, 83.33% from Federal capitalization grants and 16.67% from State matching funds, other than American Recovery and Reinvestment Act (ARRA) funds. ARRA funds do not require State matching funds. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date the funds are advanced and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and accrued interest during the project period. The interest rates on loans range from 2.0% to 5.25% and the terms are between 5 to 20 years. The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2010, which is collectible in fiscal year 2011.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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

G. Use of Estimates

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

2. Cash in State Treasury

Cash in State Treasury as reported on the balance sheet is under the control of the Nebraska State Treasurer or other administrative bodies as determined by law. Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio including investment policies, risks, and types of investments can be found in the State of Nebraska's CAFR for the fiscal year ended June 30, 2010. All interest revenue is allocated to the general fund except allocations required by law to be made to other funds. All funds of the Clean Water State Revolving Fund Program were designated for investment during fiscal year 2010. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Loans Receivable (Concluded)

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

4. Bonds Payable

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

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

5. Net Assets

Included in the Net Assets is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the capitalization grants awarded, drawn, and the remaining balance as of June 30, 2010. The year column relates directly to the grant amount column and represents the fiscal year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2010, and may have been drawn over multiple years.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. Net Assets (Concluded)

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

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

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

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

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

6. Loan Fees Administration

The reported amount comes from a fee charged to loan recipients each year based on the amount of the loan outstanding. The fee ranged from .5% to 1% per annum and was collected semi-annually.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. Interest on Fund Balance – State Operating Pool

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

8. Small Town Grants and ARRA Principal Forgiveness

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

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

9. Operating Revenues and Expenses

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

10. State Employees Retirement Plan (Plan)

The single-employer plan became effective by statute on January 1, 1964. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on or after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska Legislature.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

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

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

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

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

The State of Nebraska Comprehensive Annual Report (CAFR) also includes pension-related disclosures. The CAFR is available from the Nebraska Department of Administrative Services – Accounting Division or on the Nebraska Auditor of Public Accounts website at www.auditors.state.ne.us.

11. Contingencies and Commitments

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. Contingencies and Commitments (Concluded)

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

Details of the various insurance coverages are available from DAS - Risk Management Division.

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. Subsequent Events

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

Project #7079

Interest	\$ 48,572.97
Principal	3,834,708.01
Administration Fee	<u>16,190.99</u>
Total Project	<u>3,899,471.97</u>

Project #7319

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

Project #7375

Interest	179,192.51
Principal	10,610,082.71
Administration Fee	<u>44,798.13</u>
Total Project	<u>10,834,073.35</u>

Total Payment	<u>\$ 32,086,738.77</u>
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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. The report was modified to emphasize the financial statements present only the funds of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's response and accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program declined to respond.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

November 10, 2010

Don Dunlap, CPA
Assistant Deputy Auditor



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY – CLEAN WATER STATE REVOLVING FUND
PROGRAM IN ACCORDANCE WITH THE U.S. ENVIRONMENTAL
PROTECTION AGENCY AUDIT GUIDE FOR CLEAN WATER AND
DRINKING WATER STATE REVOLVING FUND PROGRAMS**

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have audited the compliance of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program with the types of compliance requirements described in the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* that were applicable for the year ended June 30, 2010. We audited the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance with requirements governing: Allowability for Specific Activities, Allowable Costs/Cost Principles, Cash Management, State Matching, Period of Availability of Funds and Binding Commitments, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions. Compliance with these requirements is the responsibility of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's management. Our responsibility is to express an opinion on the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance based on our audit.

Compliance

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over compliance with requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the Comments Section of this report as Comment Number 2 (Loan Testing), Comment Number 3 (Reporting), and Comment Number 4 (Allowable Administration Costs). A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's response and accordingly, we express no opinion on it. Where no response is indicated, the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program declined to respond.

This report is intended solely for the information and use of management, others within the Nebraska Department of Environmental Quality, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

November 10, 2010

Don Dunlap CPA
Assistant Deputy Auditor

ATTACHMENT 6

**CWSRF BENEFIT REPORTS from 2011 AVAILABLE ON-LINE
AT <http://deq.ne.gov/>**

**Go to
Publications & Forms
Water Quality
Annual Reports
2011 CWSRF Annual Report**

**INCLUDED HERE:
Summary Loan List
Summary Report**

CW Benefits Loan List for Nebraska

System Number	Recipient	Tracking Number	Assistance Amount	Initial Agreement
NE 57	Ainsworth, City of	C317559	345,000	5/13/2009
NE 31	Arlington, Village of	C317325	1,223,435	1/7/2005
NE 3	Aurora, City of	C317122	14,300,000	3/10/2006
NE 108	Aurora, City of	C317326	3,400,000	6/29/2011
NE 49	Aurora, City of	C317522	400,000	9/25/2008
NE 35	Bancroft, Village of	C317277	1,020,198	3/19/2007
NE 8	Bassett, City of	C317279	98,231	5/19/2005
NE 73	Beatrice, City of	C317743	98,575	10/8/2009
NE 41	Bellevue, City of	C317531	3,800,000	7/17/2008
NE 36	Big Springs, Village of	C317167	793,000	5/25/2007
NE 98	Blair, City of	C317638	400,000	4/1/2011
NE 38	Brock, Village of	C317257	75,000	6/27/2008
NE 52	Broken Bow, City of	C317596	6,750,000	5/14/2009
NE 88	Butler Co., SID No. 1 of	C317764	122,323	10/7/2010
NE 95	Carroll, Village of	C317107	500,000	4/1/2011
NE 61	Cedar Bluffs, Village of	C317532	634,066	8/17/2009
NE 51	Chadron, City of	C317151	4,360,000	7/15/2009
NE 34	Chapman, Village of	C317477	420,000	4/4/2007
NE 77	City of Creighton	C317731	220,536	12/14/2009
NE 79	City of Hartington	C317341	146,578	8/2/2010
NE 90	City of Ogallala	C317500	673,000	12/28/2010
NE 97	Clarkson, City of	C317533	750,000	5/25/2011
NE 53	Coleridge, Village of	C317597	56,146	6/11/2009
NE 30	Concord, Village of	C317468	311,000	2/26/2007
NE 91	Cozad	C317634	2,075,000	1/17/2011
NE 13	Deshler, City of	C317391	935,000	4/5/2005
NE 60	Dorchester, Village of	C317565	670,970	7/22/2009
NE 89	Duncan, Village of	C317599	493,000	10/4/2010
NE 5	Dwight, Village of	C317484	307,650	3/31/2006
NE 58	Elgin, Village of	C317606	132,000	11/3/2008
NE 15	Ewing, Village of	C317392	67,000	3/21/2005
NE 74	Filley, Village of	C317594	245,000	4/26/2010
NE 11	Garland, Village of	C317159	331,950	11/30/2004
NE 17	Gering, City of	C317059	3,250,000	9/13/2004
NE 9	Gosper County, SID No. 1 of	C317390	15,484,961	6/28/2006
NE 24	Gothenburg, City of	C317395	372,105	5/23/2005
NE 55	Gothenburg, City of	C317568	279,827	5/14/2009
NE 40	Guide Rock, Village of	C317234	321,451	4/13/2010
NE 28	Hickman, City of	C317398	348,688	5/26/2005
NE 102	Holdrege, City of	C317491	457,872	1/19/2011
NE 32	Indianola, City of	C317343	756,740	4/23/2007
NE 87	Kearney, City of	C317789	1,250,000	9/30/2010
NE 6	Kennard, Village of	C317118	147,000	4/4/2006
NE 80	Laurel	C317705	160,000	10/8/2009
NE 82	Leigh, Village of	C317447	630,000	7/9/2010
NE 63	Lincoln, City of	C317078	5,000,000	8/27/2009
NE 64	Lincoln, City of	C317247	4,808,792	8/27/2009
NE 94	Lincoln, City of	C317830	17,000,000	3/17/2011
NE 45	Loomis, Village of	C317236	212,700	3/11/2008
NE 37	Lower Platte North, NRD of	C317573	12,000,000	11/14/2007
NE 44	Lynch, Village of	C317539	174,300	1/9/2008
NE 29	Lyons, City of	C317449	930,000	10/18/2006
NE 56	Malcolm, Village of	C317575	1,000,000	7/14/2009

System Number	Recipient	Tracking Number	Assistance Amount	Initial Agreement
NE 27	McCook, City of	C317349	4,200,000	4/5/2005
NE 26	McCool Junction, Village of	C317451	82,903	8/8/2004
NE 59	Melbeta, Village of	C317248	259,437	10/8/2008
NE 4	Murray, Village of	C317250	1,425,000	6/9/2003
NE 101	Nebraska City, City of	C317741	5,000,000	4/1/2011
NE 43	Newman Grove, City of	C317498	333,099	10/2/2007
NE 22	Nickerson, Village of	C317431	281,011	9/6/2005
NE 18	North Bend, City of	C317142	308,000	4/22/2005
NE 75	Not Identified		0	
NE 71	Not Identified		0	
NE 109	Not Identified		0	
NE 76	Not Identified		0	
NE 107	Not Identified		0	
NE 50	Oakland, City of	C317409	2,162,000	6/9/2009
NE 66	Omaha, City of	C317432	7,500,000	12/22/2009
NE 67	Omaha, City of	C317476	7,500,000	12/22/2009
NE 86	Osmond, City of	C317205	214,000	8/18/2010
NE 16	Oxford, Village of	C317229	1,300,000	1/28/2005
NE 12	Palmer, Village of	C317414	182,000	1/12/2005
NE 100	Paxton, Village of	C317807	64,600	11/10/2010
NE 21	Plainview, City of	C317060	1,260,600	4/4/2006
NE 70	Platte Center, Village of	C311528	199,086	2/8/2010
NE 85	Plattsmouth, City of	C317526	1,849,810	7/28/2010
NE 68	Pleasanton, Village of	C317744	329,536	1/7/2010
NE 103	Polk County SID#1	C317696	2,212,847	6/30/2011
NE 69	Red Cloud, City of	C317506	497,729	1/22/2010
NE 14	Rising City, City of	C317073	450,340	12/16/2004
NE 25	Ruskin, Village of	C317416	271,020	11/16/2004
NE 47	Scottsbluff, City of	C317219	3,370,000	5/21/2009
NE 99	Shelby, Village of	C317813	365,625	3/23/2011
NE 48	Sidney, City of	C317189	5,500,000	7/14/2009
NE 7	Silver Creek, Village of	C317508	243,000	3/31/2006
NE 39	South Sioux City, City of	C317360	5,000,000	5/23/2008
NE 65	South Sioux City, City of	C317725	2,300,000	9/30/2009
NE 10	St. Paul, City of	C317263	306,513	5/15/2006
NE 20	Stamford, Village of	C317080	373,331	4/11/2005
NE 19	Sutherland, Village of	C317364	165,880	8/13/2004
NE 54	Tekamah, City of	C317252	1,197,820	7/20/2009
NE 23	Valley, City of	C317367	4,850,000	7/15/2004
NE 46	Verdigre, Village of	C317460	400,000	5/12/2008
NE 72	Verdigre, Village of	C317746	1,403,627	3/31/2010
NE 78	Village of Allen	C317478	145,432	8/13/2010
NE 92	Village of Brule	C317690	117,179	2/10/2011
NE 93	Village of Elm Creek	C317607	394,835	11/30/2010
NE 105	Village of Hayes Center	C317291	306,000	3/22/2011
NE 106	Village of Lawrence	C317837	160,000	3/21/2011
NE 104	Village of Stuart	C317510	125,000	2/17/2011
NE 84	Wayne, City of	C317369	7,000,000	10/25/2010
NE 62	Western, Village of	C317659	69,863	8/14/2009
NE 96	Wolbach, Village of	C317723	50,000	3/25/2011
NE 42	Wymore, Village of	C317522	402,800	2/28/2008

Total for all 104 Loans 182,869,017

Nebraska Summary Report for CW Benefits

	Loans		Projects			Borrowers		
	Assistance Dollars (millions)	Numbers	Assistance Dollars (millions)	Subsidy Dollars (millions)	Numbers	Facility Population (millions)	Facility Flow (MGD)	Numbers
Total Records	182.9	104	182.6		108	1.1	196	92
Complete Records	181.0	90	180.0	35.3	90	1.1	195	82
Impacting Human Health	131.8	55	131.7	26.3	55	1.0	189	50
	73%	61%	73%		61%	7,663	People Served per \$million	61%
With Impaired Waterbod			116.7	24.4	32	1.0	181	27
			65%		36%	8,230	People Served per \$million	33%
With Waterbody Meeting Standards			53.1	9.2	37			
To Improve Water Qualit			118.4	21.7	49			
To Maintain Water Quality			53.1	11.4	28			
To Achieve Compliance			101.9	19.3	46			
To Maintain Compliance			57.7	13.3	33			