

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

**JULY 1, 2007 THROUGH JUNE 30, 2008**

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**Issued on April 13, 2009**

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, 2008, the EPA had awarded \$133 million in capitalization grants to the State. The award of this \$133 million 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. 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.

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**EXIT CONFERENCE**

An exit conference was held March 11, 2009, 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>
Thomas R. Lamberson	Deputy Director
Rick Bay	Financial Assistance Section Supervisor
Kris Young	Federal Aid Administrator
Mark Herman	Federal Aid Administrator



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER 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, 2008, which collectively comprise the Program's basic financial statements as listed in the Table of Contents. These 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, 2008, 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, 2008, 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 DATE, 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 April 9, 2009, 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 them.

Signed Original on File

April 9, 2009

Timothy J. Channer, 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, 2008. 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.

**ANALYSIS OF BALANCES AND TRANSACTIONS OF ENTERPRISE FUND**

**Changes in Net Assets**

For the fiscal year ended June 30, 2008, net assets of the Program increased by 7%. Revenues for the Department increased 19% while expenses decreased 10%.

	<b>NET ASSETS</b>		
	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Current Assets	\$ 42,984,643	\$ 36,955,730	16%
Noncurrent Assets	<u>142,299,810</u>	<u>136,068,996</u>	5%
Total Assets	<u>185,284,453</u>	<u>173,024,726</u>	7%
 Net Assets:			
Unrestricted	<u>185,284,453</u>	<u>173,024,726</u>	7%
Total Net Assets	<u><u>\$ 185,284,453</u></u>	<u><u>\$ 173,024,726</u></u>	7%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

	2008	2007	% Change
Loan Fees Administration	\$ 1,495,257	\$ 1,334,405	12%
Interest	6,405,155	5,306,810	21%
Miscellaneous Revenue	-	10,294	(100%)
<b>Total Operating Revenue</b>	<u>7,900,412</u>	<u>6,651,509</u>	19%
Administration	1,030,752	1,161,417	(11%)
Bond Expenses	31,112	21,645	44%
<b>Total Operating Expenses</b>	<u>1,061,864</u>	<u>1,183,062</u>	(10%)
<b>Operating Income</b>	6,838,548	5,468,447	25%
<b>Capital Federal Grants</b>	<u>5,429,600</u>	<u>4,424,300</u>	23%
<b>Change in Net Assets</b>	12,268,148	9,892,747	24%
<b>Net Assets, Beginning of Year</b>	<u>173,016,305</u>	<u>163,131,979</u>	6%
<b>Net Assets, End of Year</b>	<u>\$ 185,284,453</u>	<u>\$173,024,726</u>	7%

**ECONOMIC OUTLOOK**

Nebraska's economy has continued with slow, steady growth. How the Program's revenue will be affected by the current national economy decline and market freefall is unknown. The Program is included in the American Recovery and Reinvestment Act of 2009 (ARRA) and is expected to receive approximately 20 million dollars in additional funding. The ARRA funding does not require a State match.

**DEBT ADMINISTRATION**

**Long-Term Debt**

The Clean Water State Revolving Fund Program had no long-term debt activity during the fiscal year.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 CLEAN WATER STATE REVOLVING FUND PROGRAM  
**BALANCE SHEET**  
 JUNE 30, 2008

	<u>Enterprise Fund</u>
<b>ASSETS</b>	
CURRENT ASSETS:	
Cash in State Treasury (Note 2)	\$ 32,620,763
Cash With Fiscal Agent	39,487
Administrative Fees Receivable	622
Loan Interest Receivable	1,865
Interest Receivable	129,143
Loans Receivable (Note 3)	10,192,763
<b>TOTAL CURRENT ASSETS</b>	<u>42,984,643</u>
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	142,299,810
<b>TOTAL NON-CURRENT ASSETS</b>	<u>142,299,810</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 185,284,453</u></u>
 <b>LIABILITIES</b>	
<b>TOTAL LIABILITIES</b>	<u>\$ -</u>
 <b>NET ASSETS</b>	
Unrestricted	185,284,453
<b>TOTAL NET ASSETS</b>	<u>185,284,453</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 185,284,453</u></u>

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 CLEAN WATER STATE REVOLVING FUND PROGRAM  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
 For the Year Ended June 30, 2008

	<u>Enterprise Fund</u>
<b>OPERATING REVENUES:</b>	
Loan Fees Administration (Note 6)	\$ 1,495,257
Interest on Loans	5,040,642
Interest on Fund Balance -Trustee	39,399
Interest on Fund Balance - State Operating Pool (Note 7)	<u>1,325,114</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>7,900,412</b></u>
<b>OPERATING EXPENSES:</b>	
Administrative Costs	785,443
Small Town Grants (Note 8)	136,941
Facility Planning Grants	108,368
Interest Expense on Bonds Payable	<u>31,112</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>1,061,864</b></u>
<b>OPERATING INCOME</b>	6,838,548
<b>CAPITAL CONTRIBUTIONS - FEDERAL GRANTS</b>	<u>5,429,600</u>
<b>CHANGE IN NET ASSETS</b>	12,268,148
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>173,016,305</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u><u>\$ 185,284,453</u></u>

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 CLEAN WATER STATE REVOLVING FUND PROGRAM  
**STATEMENT OF CASH FLOWS**  
 For the Year Ended June 30, 2008

	<u>Enterprise Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts From Customers	\$ 13,963,958
Interest on Fund Balance - Trustee	39,399
Bond Interest Payments	(31,112)
Interest on Investments	1,304,301
Payments to Borrowers	(14,888,310)
Payments to Employees and Vendors	(1,030,752)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>(642,516)</u>
<b>CASH FLOWS FROM NON-CAPITAL &amp; RELATED FINANCING ACTIVITIES:</b>	
Funds Received From the Environmental Protection Agency	<u>5,429,600</u>
<b>NET CASH FROM NON-CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>	5,429,600
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>27,873,166</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 32,660,250</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating Income	\$ 6,838,548
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
(Increase)/Decrease in Loans Receivable	(7,459,513)
(Increase)/Decrease in Interest Receivable	(20,812)
(Increase)/Decrease in Administrative Fees Receivable	(185)
(Increase)/Decrease in Loan Interest Receivable	(554)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ (642,516)</u></u>

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2008

**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 financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services.

- 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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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 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. 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 net total 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, 2008, 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. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date 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 2.5% 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, 2008, which is collectible in fiscal year 2009.

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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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

**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, 2008. 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 2008. Amounts are allocated on a monthly basis based on average balances of all invested funds.

**3. Loans Receivable**

As of June 30, 2008, the Program had 138 outstanding loans with communities that totaled \$152,492,573. The outstanding balances of the ten communities with the largest State Revolving Fund debt, which represent 63.3% of the total loans, were as follows:

City	Outstanding Balance
Omaha	\$ 36,414,248
North Platte	16,086,515
SID #1 Gosper County	12,129,231
Gibbon	6,512,574
McCook	5,433,738
West Point	4,627,746
Valley	4,360,111
Scottsbluff	4,139,934
Wahoo	3,843,782
Gering	2,907,033
Total	\$ 96,454,912

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Bonds Payable**

The EPA requires the Program to provide matching funds. During the fiscal year, the Program issued Series 2007B short-term revenue bonds to meet this requirement. Bond Series 2007B was retired during the year ended June 30, 2008. Bonds Payable activity for fiscal year 2008 was:

	Beginning Balance	Additions	Retirement	Ending Balance
Bonds Payable	\$ -	\$ 870,000	\$ 870,000	\$ -

**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, 2008.

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
<b>TOTAL</b>	<b>\$ 133,010,697</b>	<b>\$ 129,594,997</b>	<b>\$ 3,415,700</b>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**5. Net Assets** (Concluded)

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

Contributed Capital July 1, 2007	\$ 125,120,397
Contributed During the Year - Funds	
Received From EPA	<u>5,429,600</u>
Contributed Capital June 30, 2008	<u>\$ 130,549,997</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 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. Of the total collected, \$136,628 was used as match for the fiscal year 2008 capitalization grant.

**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. Interest is credited on approximately the twenty-fifth day of each subsequent month.

**8. Small Town Grants**

Small Town Grants are made to communities that have a population of 5,000 people or less. The total maximum of Small Town Grants awarded in any one fiscal year is \$500,000. Prior to the fiscal year 2008 Intended Use Plan, the maximum a community could receive was \$150,000 concurrent with a Program loan. Under the 2008 Intended Use Plan, the maximum is \$100,000 concurrent with a Program loan. The Loan Fees Administration is used to fund these grants.

**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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 and after January 1, 2003, become members of the cash balance benefit. Additionally, on or after November 1, 2007, but before January 1, 2008, members who are employed and participating in the retirement system could elect to continue participation in the defined contribution option or elect to participate in the cash balance benefit. Members who elected to participate in the cash balance benefit during this timeframe commenced participation in the cash balance benefit on January 1, 2008. 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 vested 100% after a total of three years of participation in the system, including the 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 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

For the fiscal year ended June 30, 2008, employees contributed \$20,787 and the Department contributed \$32,428. 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 CAFR also includes pension related disclosures. The CAFR report is available from the Nebraska Department of Administrative Services – Accounting Division or on the Nebraska Auditor of Public Accounts website at [www.auditors.state.ne.us](http://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. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State with the exception of the health and life insurance programs which are maintained by the DAS Personnel Division. The State generally self-insures for general liability, employee health care, 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 medical payments, 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. **Contingencies and Commitments** (Concluded)

Details of the various coverage is 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 Department'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.

12. **Reconciliation of Bank Records to the State's General Ledger**

Through their bank reconciliation procedures, State Accounting has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the effect of such adjustment, if any, on the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's balances; however, State Accounting believes it will not have a material impact on the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's operations.

13. **Restatement of Beginning Net Assets**

The Beginning Net Assets balance on the Statement of Revenues, Expenses, and Changes in Net Assets was adjusted down by \$8,421. This adjustment was made to correct the beginning balance for a prior period error in coding between the Clean Water Revolving Fund Program and the Drinking Water Revolving Fund Program. A corresponding upward adjustment was made to the Beginning Net Assets balance on the Nebraska Department of Environmental Quality - Drinking Water State Revolving Fund Program's Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2008.



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2008, and have issued our report thereon dated April 9, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's financial statements that is more than inconsequential will not be prevented or detected by the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control.

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

#### Compliance and Other Matters

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

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

Signed Original on File

April 9, 2009

Timothy J. Channer, CPA  
Assistant Deputy Auditor



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State 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 *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, 2008. 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, 2008.

#### 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 control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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

Signed Original on File

April 9, 2009

Timothy J. Channer CPA  
Assistant Deputy Auditor