

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

JULY 1, 2008 THROUGH JUNE 30, 2009

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Issued on June 2, 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, 2009, 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

EXIT CONFERENCE

An exit conference was held May 18, 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:

NAME	TITLE
Tom Lamberson	Deputy Director
Martie Guthrie	Budget Officer III
Kris Young	Accountant III
Mark Herman	Federal Aid Administrator II
Jan Worster	Federal Aid Administrator II

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

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

Loans Receivable Reconciliation

A good internal control plan requires the Nebraska Information System (NIS) loans receivable data be reconciled to the Department's internal loans receivable records to ensure loan activity was recorded accurately and NIS loans receivable balances are accurate.

The Department did not reconcile their internal Clean Water loan records to NIS at June 30, 2009. The Loans Receivable balance at June 30, 2009, was \$157,802,618.

When NIS is not reconciled to internal loans receivable records, there is an increased risk errors will not be detected and loan balances will not be accurate. Furthermore, when loan activity is not accurately recorded in NIS, individual loan balances will not be accurate.

We recommend the Department periodically reconcile NIS to the Department's internal Clean Water loans receivable records at fiscal year end, at the minimum. Furthermore, we recommend that all errors detected as a result of the reconciliation be corrected in NIS.

Department's Response: NDEQ Management recognizes the importance of loan reconciliation between NIS and internal Clean Water loans receivable records, as well as NIS and the Automated Standard Application for Payments (ASAP) system. We have taken measures to establish procedures that accomplish the recommended reconciliations by:

- 1) Reconciling NIS loan information to internal Clean Water loans receivable records on a monthly basis, adjusting or correcting discrepancies as appropriate, and*
- 2) Reconciling NIS general ledger information to ASAP Clean Water grant activity on at least a quarterly basis, adjusting or correcting discrepancies as appropriate.*

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The formal response received has been incorporated into this report. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was 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.



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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, 2009, 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, 2009, 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, 2009, 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 May 24, 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 May 24, 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

May 24, 2010

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, 2009. 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, 2009, net assets of the Program increased by 6%. Revenues for the Program increased 2% and expenses increased 7%. The 28% increase in current assets was primarily due to several loan payoffs and additional payments by borrowers.

	NET ASSETS		
	2009	2008	% Change
Current Assets	\$ 55,023,634	\$ 42,984,643	28%
Noncurrent Assets	140,617,288	142,299,810	(1%)
Total Assets	195,640,922	185,284,453	6%
Net Assets:			
Unrestricted	195,640,922	185,284,453	6%
Total Net Assets	\$ 195,640,922	\$ 185,284,453	6%

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

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

	2009	2008	% Change
Loan Fee Administration	\$ 1,503,314	\$ 1,495,257	1%
Interest	6,575,360	6,405,155	3%
Total Operating Revenue	8,078,674	7,900,412	2%
Administration	1,127,317	1,030,752	9%
Bond Expenses	10,588	31,112	(66%)
Total Operating Expense	1,137,905	1,061,864	7%
Operating Income	6,940,769	6,838,548	1%
Capital Federal Grant	3,415,700	5,429,600	(37%)
Change in Net Assets	10,356,469	12,268,148	(16%)
Beginning Net Assets July 1	185,284,453	173,016,305	7%
Ending Net Assets June 30	\$ 195,640,922	\$ 185,284,453	6%

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 economy decline is unknown. The Program is included in the American Recovery and Reinvestment Act of 2009 (ARRA) and is expected to receive approximately \$20 million in additional funding in fiscal year 2010. 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, 2009

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash in State Treasury (Note 2)	\$ 37,225,969
Administration Fees Receivable	111,877
Loan Interest Receivable	383,265
Interest Receivable	117,193
Loans Receivable (Note 3)	17,185,330
TOTAL CURRENT ASSETS	55,023,634
NON-CURRENT ASSETS	
Loans Receivable (Note 3)	140,617,288
TOTAL NON-CURRENT ASSETS	140,617,288
TOTAL ASSETS	\$ 195,640,922
 LIABILITIES	
TOTAL LIABILITIES	\$ -
 NET ASSETS	
Unrestricted	195,640,922
TOTAL NET ASSETS	195,640,922
TOTAL LIABILITIES AND NET ASSETS	\$ 195,640,922

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, 2009

	<u>Enterprise Fund</u>
OPERATING REVENUES:	
Loan Fees Administration (Note 6)	\$ 1,503,314
Interest on Loans	4,962,404
Interest on Fund Balance - Trustee	10,338
Interest on Fund Balance - State Operating Investment Pool (Note 7)	1,602,618
TOTAL OPERATING REVENUES	8,078,674
OPERATING EXPENSES:	
Administrative Costs	730,453
Small Town Grants (Note 8)	289,831
Facility Planning Grants	107,033
Interest Expense on Bonds Payable	10,588
TOTAL OPERATING EXPENSES	1,137,905
OPERATING INCOME	6,940,769
CAPITAL CONTRIBUTIONS - FEDERAL GRANTS	3,415,700
CHANGE IN NET ASSETS	10,356,469
TOTAL NET ASSETS, BEGINNING OF YEAR	185,284,453
TOTAL NET ASSETS, END OF YEAR	\$ 195,640,922

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, 2009

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 17,100,316
Interest on Fund Balance - Trustee	10,338
Bond Interest Payments	(10,588)
Decrease Receipts from Incorrect Deposit	(666)
Interest on Investments	1,614,568
Payments to Borrowers	(16,436,632)
Payments to Employees and Vendors	(1,127,317)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,150,019
 CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES:	
Funds Received From the Environmental Protection Agency	3,415,700
NET CASH FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES	3,415,700
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 32,660,250
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 37,225,969
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 6,940,769
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(5,310,045)
(Increase)/Decrease in Interest Receivable	11,950
(Increase)/Decrease in Administration Fees Receivable	(111,255)
(Increase)/Decrease in Loan Interest Receivable	(381,400)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,150,019

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, 2009

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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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, 2009, 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. 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. Disadvantaged communities may have up to 30 years to repay. The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2009, which is collectible in fiscal year 2010.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
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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, 2009. 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 2009. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

As of June 30, 2009, the Program had 146 outstanding loans with communities that totaled \$157,802,618. The outstanding balances of the ten communities with the largest loan balances, which represents 60.8% of the total loans, were as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Loans Receivable (Concluded)

City	Outstanding Balance
Omaha	\$ 34,108,484
North Platte	15,479,076
SID #1 Gosper County	14,750,000
Gibbon	6,344,473
McCook	4,989,407
Scottsbluff	4,533,565
West Point	4,422,126
Valley	4,285,111
Wahoo	3,660,790
Lake Wanahoo	3,340,468
Total	\$ 95,913,500

4. Bonds Payable

The EPA requires the Program to provide matching funds. During the fiscal year, the Program issued Series 2008B short-term revenue bonds to meet this requirement. Bond Series 2008B was retired during the year ended June 30, 2009. Bonds Payable activity for fiscal year 2009 was:

	Beginning Balance	Additions	Retirement	Ending Balance
Bonds Payable	\$ -	\$ 550,000	\$ 550,000	\$ -

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, 2009. The year column relates directly to the grant amount column and represents the year the grant was awarded. The amount drawn column is as of June 30, 2009, 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	-

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Net Assets (Concluded)

Year	Grant Amount	Amount Drawn	Balance
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	-	-	-
TOTAL	<u>\$ 133,010,697</u>	<u>\$ 133,010,697</u>	<u>\$</u>

The 2009 grant was delayed and was not awarded until September 10, 2009, after the end of State fiscal year 2009.

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

Contributed Capital July 1, 2008	\$ 130,549,997
Contributed During the Year - Funds	
Received From EPA	3,415,700
Contributed Capital June 30, 2009	<u>\$ 133,965,697</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. Of the total collected, \$163,954 was used as match for the fiscal year 2009 capitalization grant.

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

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 2009 was \$650,000. Under the 2009 Intended Use Plan, the maximum is \$200,000 per project concurrent with a Program loan. 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.

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 were 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees, who have attained the age of 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 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, 2009, employees contributed \$19,276 and the Department contributed \$30,070. 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 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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:

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

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

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. Contingencies and Commitments (Concluded)

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, DAS – State Accounting identified a variance between the State Treasurer's bank statements and the State's balances in the general ledger (NIS). The bank records were short as compared to the accounting records. Monthly reconciliations were completed by DAS – State Accounting for July 2005 through May 2009. The variance between the bank records and the balance in NIS was consistent at \$1,065,210 for all the months noted. DAS - State Accounting reduced the total Operating Investment Pool (OIP) interest distributed to each agency in June 2009. The total OIP interest distributed was reduced by \$897,282 which consisted of the net of the \$1,065,210 variance between the bank records and accounting records, and \$167,928 of other miscellaneous adjustments. As of June 30, 2009, there was no variance between the bank records and the accounting records. The effect on the Program's financial statements was not significant.



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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, 2009, and have issued our report thereon dated May 24, 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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. We consider the following deficiency described in the Comments Section of the report to be a significant deficiency in internal control over financial reporting: Loans Receivable Reconciliation.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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*.

The Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's written response to the findings identified in our examination 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

May 24, 2010

Timothy J. Channer, 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, 2009. 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, 2009.

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, 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

May 24, 2010

Timothy J. Channer CPA
Assistant Deputy Auditor