

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF  
ENVIRONMENTAL QUALITY  
CLEAN WATER  
STATE REVOLVING FUND PROGRAM  
JULY 1, 1999 THROUGH JUNE 30, 2000**

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. Section 81-15,147 created the Wastewater Treatment Facilities Construction Assistance Act. The federal Water Quality Act and Section 81-15,147 established the Clean Water State Revolving Fund (CWSRF) program (which replaced the construction grants program) to provide loans, at reduced interest rates, to finance the construction of publicly 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 CWSRF program provides for low interest loans to finance the entire cost of qualified projects. The CWSRF program provides a flexible financing source which can be used for a variety of pollution control projects, including non-point source pollution control projects, and to develop estuary conservation and management plans. Loans made by the Program must be repaid within 20 years, and all repayments, including interest and principal, must remain in 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, 2000, the EPA had awarded \$80 million in capitalization grants to the State. The award of this \$80 million required the State to contribute \$16 million in matching funds. The State issued revenue bonds to provide the funds to meet the State's matching requirement.

The Program is administered by the Nebraska Department of Environmental Quality (NDEQ). NDEQ'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 NDEQ and the Intended Use Plan for the Program.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program and are not intended to present fairly the financial position and results of operations of the State of Nebraska, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2001, on our consideration of Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

February 2, 2001

A handwritten signature in dark ink that reads "Don Dunlap CPA". The signature is written in a cursive, flowing style.

Manager

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 CLEAN WATER STATE REVOLVING FUND PROGRAM  
**BALANCE SHEET**  
 As of June 30, 2000

ASSETS:

CURRENT ASSETS:

Cash in State Treasury	\$ 22,353,252
Cash Held by Trustee (Bond Proceeds)	4,729
Loans Receivable Current Portion	6,033,119
TOTAL CURRENT ASSETS	<u>28,391,100</u>

NONCURRENT ASSETS:

Loans Receivable	61,167,418
TOTAL NONCURRENT ASSETS	<u>61,167,418</u>
TOTAL ASSETS	<u><u>\$ 89,558,518</u></u>

LIABILITIES AND FUND EQUITY:

LIABILITIES:

CURRENT LIABILITIES:

Accounts Payable	\$ 284
TOTAL CURRENT LIABILITIES	<u>284</u>
TOTAL LIABILITIES	<u><u>\$ 284</u></u>

FUND EQUITY:

Contributed Capital EPA Grants	73,408,462
State Match Appropriation	955,000
TOTAL CONTRIBUTED CAPITAL	<u>74,363,462</u>

RETAINED EARNINGS	15,194,772
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TOTAL FUND EQUITY	<u>89,558,234</u>
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TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 89,558,518</u></u>
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See Notes to the Financial Statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS**

For the Period Ending June 30, 2000

OPERATING REVENUES:

Loan Fees Administration	\$ 588,492
Interest on Loans	2,409,902
TOTAL OPERATING REVENUES	<u>2,998,394</u>

OPERATING EXPENSES:

Administrative Costs	487,670
TOTAL OPERATING EXPENSES	<u>487,670</u>

OPERATING INCOME	2,510,724
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NON OPERATING REVENUES (EXPENSES):

Interest on Fund Balance	840,647
Interest on Bond Accounts Held by Trustee	704,030
Rebate Arbitrage	(871)
Bond Discount Amortization	(25,351)
Cost of Bond Issuance	(52,769)
Interest Expense - State Match Bonds	(332,223)
TOTAL NON OPERATING REVENUES	<u>1,133,463</u>

NET INCOME	3,644,187
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RETAINED EARNINGS JULY 1, 1999	<u>11,550,585</u>
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RETAINED EARNINGS JUNE 30, 2000	<u><u>\$ 15,194,772</u></u>
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See Notes to the Financial Statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM  
**STATEMENT OF CASH FLOWS**  
For the Period Ended June 30, 2000

OPERATING NET INCOME	\$ 2,510,724
ADJUSTMENT TO RECONCILE OPERATING LOSS TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES:	
Increase (Decrease) in Payables	(250,531)
TOTAL ADJUSTMENTS TO OPERATING LOSS	<u>(250,531)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,260,193</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Funds Received from EPA	4,932,818
Amortization of Bond Discounts	25,351
Principal Payments on Bonds	(10,700,000)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,741,831)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net Income from Investing Activities	1,133,463
Principal Received on Loans	4,580,236
Loans to Communities	(9,789,745)
NET CASH FROM INVESTING ACTIVITIES	<u>(4,076,046)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,557,684)
CASH AND CASH EQUIVALENTS, JULY 1, 1999	<u>29,915,665</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2000	<u><u>\$ 22,357,981</u></u>

See Notes to the Financial Statements.



NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

- A. Basis of Presentation.** The accompanying financial statements of the Nebraska Department of Environmental Quality (the Department) - Clean Water State Revolving Fund Program (the Program) have been prepared in conformance with generally accepted accounting principles (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 and the Trustee (US Bank) for the state match bond accounts.

- B. Reporting Entity.** The Program is a program within the Department and is under and governed by the Clean Water Act of the Federal Government and by the 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 for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Program's management are such that exclusion would be misleading or incomplete. The 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 Program's management 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  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**NOTES TO 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. The Program is made up of four funds on the State of Nebraska Accounting System. It includes the following funds as identified in the Wastewater Treatment Facilities Construction Assistance Act:

- Drinking Water Facilities Fund – General Fund 1000, Federal Fund 4841, and Trust Fund 6847
- Construction Administration Fund – Cash Fund 2846

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

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

- D. 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. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. 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.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**E. Cash and Cash Equivalents.** Cash in the State Treasury is maintained in a short-term investment pool and is considered a cash equivalent. Cash Held by Trustee is also considered a cash equivalent.

**F. Loans Receivable.** The State operates the Program as a direct loan program whereby loans made to communities are funded, on the 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 3% to 4% with terms of between 10 and 20 years. The current loans receivable amount was determined using the amount of principal payment due to the Clean Water State Revolving Fund Program at June 30, 2000 which was collectable in fiscal year 2001.

No provisions have been made for uncollectible accounts because all loans are current, and management believes all loans will be repaid according to the loan terms. There is a provision for the Program to intercept State aid to a community that is in default of its loan.

As of June 30, 2000, the Program had made loans to ten communities totaling more than \$63 million. The outstanding balances of these loans, which represent approximately 66 percent of the total loans receivable, are as follows:

City Authorized	Amount Authorized	Outstanding Balance
Norfolk	\$ 9,300,000	\$ 8,174,106
Lincoln	9,030,100	7,537,566
Scottsbluff	7,083,095	5,974,372
Central City	4,000,000	3,799,000
Kearney	4,215,000	3,602,800
Omaha	14,320,000	3,582,390
Cozad	4,537,000	3,269,417
Aurora	3,800,000	3,225,497
Holdrege	3,801,500	2,869,728
David City	2,955,000	2,578,241
Total	<u>\$ 63,041,695</u>	<u>\$ 44,613,117</u>

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

- G. Accounts Payable.** Due to limitations of the State of Nebraska Accounting System a cutoff must be made at July 31 of each year when determining the amount of Accounts Payable that exists for the current year. Any information that would change this figure will be disregarded and shown as an expense of the year the payment is made and not when the liability was incurred.

**2. Cash and Cash Equivalents and Investments**

- **Cash in State Treasury.** Cash in State Treasury as reported on the balance sheet is under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is maintained in a short-term investment pool. The State Investment Officer invests the deposited cash in short-term securities and other investments. 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 2000. Amounts were allocated on a monthly basis based on average balances of all invested funds.
- **Cash Held by Trustee.** The State, through the Nebraska Investment Finance Authority (NIFA) (the "Issuer) issues revenue bonds to provide additional funds to meet the 20% match requirements of the Capitalization Grants. U.S. Bank National Association (Trustee), as trustee, holds these accounts. As of June 30, 2000, \$4,729 was held by the trustee.

**3. Bonds Defeased/Called**

The 1991 and 1993 Revenue bonds were called in January 2000 in full. The defeasance of the 1994 and 1998 Revenue bonds occurred on May 3, 2000.

There were no Revenue bonds outstanding in the Program as of the May 3, 2000 date.

The bond trustee held \$1,207,000, in a Special Reserve Fund for each bond issue. These funds were collapsed and used as match for the 1999 SRF Capitalization Grant. The amount had not been reported as match for the Program per EPA regulations. This amount is 10% of the 1991, 1993, 1994, 1998 series bonds issued.

In 2000, NIFA issued \$5,150,000 of defeasance revenue bonds, dated May 3, 2000, to defease outstanding 1994 and 1998 series revenue bonds. In conjunction with the defeasance, the 1994 series bonds maturing on or after July 1, 2002 are scheduled to be

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Bonds Payable (Concluded)**

called for redemption on July 1, 2002 at a price of \$2,189,835 (101%). The 1998 series bonds maturing on or after July 1, 2006 are scheduled to be called for redemption on July 1, 2006 at a price of \$1,350,975 (100%). As a result, the 1994 and 1998 series bonds are considered defeased and the liability for these bonds has been removed from the Balance Sheet. At June 30, 2000, \$2,660,000 of the 1994 series bonds and \$2,330,000 of the 1998 series bonds remained to be paid from the investments held by the trustee.

On May 3, 2000 NIFA deposited \$5,097,231 with the trustee (US Bank) to defease the 1994 and 1998 Series Bonds. The 2000 Series Defeasance Revenue Bonds matured on May 3, 2000. Therefore, at June 30, 2000, no 2000 Series Bonds were outstanding.

**4. Contributed Capital EPA Grants**

This amount was the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the capitalization grants awarded, drawn, and the remaining balances as of June 30, 2000:

GRANT 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	6,919,996	100,000
1999	6,857,600	395,665	6,461,935
Total	\$ 79,970,397	\$ 73,408,462	\$ 6,561,935

**5. State Match Appropriations**

This amount is a total of all General Funds received by the program from the Legislature of the State of Nebraska. These funds 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 1989 and 1990 respectively.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**6. Administration Fees on Loans**

The reported amount of \$588,492 comes from a fee charged to loan recipients each year based on the amount of the loans outstanding. The fee ranged from .5% to 1% and was collected semi-annually. \$274,304 of the total collected was used as match for the capitalization grant.

**7. Interest on Fund Balance Held by State Treasurer**

The reported amount of \$840,647 represents the earnings the Program has received from idle funds invested by the Treasurer of the State of Nebraska pursuant to Note 2. Interest was credited on the second business day of each month.

**8. Interest on Bond Accounts Held by Trustee**

The reported amount of \$704,030 represents all interest earnings on the funds held by the trustee mentioned in Note 2. The earnings came from short-term investments made by the Trustee as well as Guaranteed Investment contracts (GICs) from Canadian Imperial Bank. Each Series has different contracts for different accounts. The amounts in the GICs were long-term investments held for the life of the bonds.

**9. State Employees' Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended through Legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and twelve months of service within a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

For the Fiscal Year Ended June 30, 2000, the Department's employees contributed \$11,199 and the Department contributed \$ 17,470.

10. **Contingencies and Commitments**

**Risk Management.** The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. 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. The State has chosen not to purchase insurance except for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million annually with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis including the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and 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 Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's financial statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**10. 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.

**11. Related Party Transactions – Title 200 Loan**

The Legislature authorized a loan within the Department for its Title 200 program to provide the capital needed to pay an estimated \$9 million in pending applications for corrective action of leaking underground storage tanks and the elimination of the pending backlog. The loan is between the Clean Water State Revolving Fund Program (Wastewater Treatment Facilities Construction Loan Fund) and the Title 200 Fund (Petroleum Release Remedial Action Cash Fund).

The Title 200 loan was being repaid from petroleum user fees. The loan was at a zero percent interest rate. As of June 30, 2000, the total amount authorized for this loan was approximately \$10.7 million. The loan was paid off during August 1999.



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY  
CLEAN WATER STATE REVOLVING FUND PROGRAM  
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 2000, and have issued our report thereon dated February 2, 2001. The report was modified to emphasize that 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 generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program in a separate letter dated February 2, 2001.

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

February 2, 2001

  
Manager