

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
CLEAN WATER
STATE REVOLVING FUND PROGRAM
JULY 1, 2000 THROUGH JUNE 30, 2001**

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, 2001, the EPA had awarded almost \$87 million in capitalization grants to the State. The award of this \$87 million required the State to contribute approximately \$17 million in matching funds. The State issued revenue bonds to provide the funds to meet the State's matching requirements.

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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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITORS' REPORT

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We have audited the general purpose 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, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these general purpose 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the general purpose 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 general purpose 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, 2001, and the results of its operations and cash flows 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 January 3, 2002, 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 grants. 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.

A handwritten signature in dark ink, reading "Timothy J. Channer CPA". The signature is fluid and cursive, with the letters "Timothy" and "Channer" being more prominent than the middle initials "J.". The "CPA" is written in a slightly different, more upright script.

Manager

January 3, 2002

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND PROGRAM
BALANCE SHEET
 As of June 30, 2001

ASSETS:

CURRENT ASSETS:

Cash in State Treasury	\$ 29,983,085
Loans Receivable Current Portion	5,435,645
TOTAL CURRENT ASSETS	<u>35,418,730</u>

NONCURRENT ASSETS:

Loans Receivable	69,043,273
TOTAL NONCURRENT ASSETS	<u>69,043,273</u>

TOTAL ASSETS	<u><u>\$ 104,462,003</u></u>
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LIABILITIES AND FUND EQUITY:

LIABILITIES:

Accounts Payable	\$ 1,240
TOTAL LIABILITIES	<u><u>\$ 1,240</u></u>

FUND EQUITY:

Contributed Capital EPA Grants (Note 4)	84,130,882
State Match Appropriation (Note 5)	955,000
TOTAL CONTRIBUTED CAPITAL	<u>85,085,882</u>

RETAINED EARNINGS	19,374,881
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TOTAL FUND EQUITY	<u>104,460,763</u>
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TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 104,462,003</u></u>
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The accompanying notes are an integral part of the general purpose 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, 2001

OPERATING REVENUES:

Loan Fees Administration (Note 6)	\$ 667,917
Interest on Loans	2,594,613
TOTAL OPERATING REVENUES	<u>3,262,530</u>

OPERATING EXPENSES:

Administrative Costs	503,653
Small Town Grants	78,393
TOTAL OPERATING EXPENSES	<u>582,046</u>

OPERATING INCOME	2,680,484
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NON-OPERATING REVENUES (EXPENSES):

Interest on Fund Balance (Note 7)	1,528,793
Interest on Bond Accounts Held by Trustee	29,454
Cost of Bond Issuance	(30,996)
Interest Expense - State Match Bonds	(27,626)
TOTAL NON-OPERATING REVENUES	<u>1,499,625</u>

NET INCOME	4,180,109
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RETAINED EARNINGS JULY 1, 2000	<u>15,194,772</u>
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RETAINED EARNINGS JUNE 30, 2001	<u><u>\$ 19,374,881</u></u>
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The accompanying notes are an integral part of the general purpose financial statements.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
For the Period Ended June 30, 2001

OPERATING NET INCOME	\$ 2,680,484
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES:	
Principal Received on Loans	5,784,438
Loans to Communities	(13,062,818)
Increase in Payables	955
TOTAL ADJUSTMENTS TO OPERATING INCOME	<u>(7,277,425)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(4,596,941)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:	
Funds Received from EPA	10,722,420
Bonds Issued	1,095,000
Principal Payments on Bonds	(1,095,000)
NET CASH FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>10,722,420</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net Income from Investing Activities	1,499,625
NET CASH FROM INVESTING ACTIVITIES	<u>1,499,625</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,625,104
CASH AND CASH EQUIVALENTS, JULY 1, 2000	<u>22,357,981</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2001	<u>\$ 29,983,085</u>

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Basis of Presentation.** The general purpose financial statements of the Nebraska Department of Environmental Quality (Department) – Clean Water State Revolving Fund Program (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 general purpose financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services and the Trustee (Wells Fargo Bank, Iowa) for the state match bond accounts.

- B. Reporting Entity.** The Program is a program within the Department and is established 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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

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

C. **Fund Structure.** The Program's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The Program consists 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 generally accepted accounting principles 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 (e.g., revenues) and decreases (e.g., expenses) in net total assets.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE 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 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.

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, 2001, which was collectible in fiscal year 2002.

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, 2001, the Program had made loans to ten communities totaling more than \$71 million. The outstanding balances of these loans, which represent approximately 57 percent of the total loans receivable, are as follows:

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

<u>City Authorized</u>	<u>Amount Authorized</u>	<u>Outstanding Balance</u>
Norfolk	\$ 9,300,000	\$ 7,821,421
Lincoln	9,030,100	6,585,065
Scottsbluff	7,083,095	5,679,431
Omaha	17,805,000	4,647,059
Kearney	8,047,669	3,455,374
Sarpy County SID # 101	4,850,000	3,100,763
Cozad	4,537,000	3,082,786
Aurora	3,800,000	3,069,691
Holdrege	3,801,500	2,671,760
David City	2,955,000	2,474,375
Total	<u>\$ 71,209,364</u>	<u>\$ 42,587,725</u>

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 is disregarded and shown as an expense of the year the payment is made and not when the liability was incurred.

2. 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 2001. Amounts were allocated on a monthly basis based on average balances of all invested funds.

3. Bonds Defeased/Called

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 May 3, 2000.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

3. Bonds Defeased/Called (Concluded)

In 2000, Nebraska Investment Finance Authority (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 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, 2001, \$2,390,000 of the 1994 series bonds and \$2,180,000 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 (Wells Fargo) to defease the 1994 and 1998 Series Bonds. The 2000 Series Defeasance Revenue Bonds matured on May 3, 2000. Therefore, at June 30, 2001, 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 and drawn, and the remaining balances as of June 30, 2001:

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	7,019,996	-
1999	6,857,600	6,857,600	-
2000	6,834,000	4,160,485	2,673,515
Total	\$ 86,804,397	\$ 84,130,882	\$ 2,673,515

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

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.

6. **Loan Fees Administration**

The reported amount of \$667,917 comes from a fee charged to loan recipients each year based on the amount of the loans outstanding. The fee was 1% and was collected semi-annually. \$273,360 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 \$1,528,793 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 approximately the twenty-fifth day of each subsequent month.

8. **Contingencies and Commitments**

Risk Management. The Nebraska Department of Environmental Quality 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 Nebraska Department of Environmental Quality, 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 generally self-insures for general liability 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. 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. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

8. Contingencies and Commitments (Concluded)

- 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 \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund 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 Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program's financial statements.

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 by 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 mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full-time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not 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 Nebraska Department of Environmental Quality matches the employee's contribution at a rate of 156% of the employee's contribution.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
(Continued)

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

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

For the Fiscal Year Ended June 30, 2001, employees contributed \$13,272 and the Nebraska Department of Environmental Quality contributed \$20,705.

10. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State's revenue and expenditure recognition, and assets, liabilities, and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

STATE OF NEBRASKA

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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**

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We have audited the general purpose financial statements of the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program as of and for the year ended June 30, 2001, and have issued our report thereon dated January 3, 2002. The report was modified to emphasize that the general purpose 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.

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 general purpose 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 the Nebraska Department of Environmental Quality - Clean Water State Revolving Fund Program in a separate letter dated January 3, 2002.

This report is intended solely for the information and use of the Department, 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.



Manager

January 3, 2002