AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING
FUND PROGRAM

JULY 1, 2021, THROUGH JUNE 30, 2022

Issued on May 3, 2023

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM

TABLE OF CONTENTS

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM

BACKGROUND

The Nebraska Department of Environment and Energy (Department) – Drinking Water State Revolving Fund Program (Program) was established pursuant to the Federal Safe Drinking Water Act of 1996. The Drinking Water State Revolving Fund Act is set out at Neb. Rev. Stat. §§ 71-5314 to 71-5327 (Reissue 2018, Cum. Supp. 2022). The Program has been established pursuant to both the Federal Safe Drinking Water Act and correlative State statutes to provide loans, at below market interest rates, to finance the construction of publicly and privately owned drinking water facilities.

Instead of making grants to communities that pay for a portion of the building of drinking water facilities, the Program provides for low-interest loans with some forgiveness to finance the entire cost of qualified projects. The Program provides a flexible financing source, which can be used for a variety of projects. Most loans made by the Program can have terms of repayment up to 30 years; however, disadvantaged communities may have a loan term up to 40 years. All repayments, including interest and principal, must be used for the purposes of the Program.

The United States Environmental Protection Agency (EPA) capitalized the Program by a series of grants starting in 1997. States are required to provide an additional 20% of the Federal capitalization grant as matching funds in order to receive a Federal grant. As of June 30, 2022, the EPA had awarded a cumulative total of $246.2 million in capitalization grants to the State of Nebraska. Of the $246.2 million awarded, approximately $19.5 million was funded by the American Recovery and Reinvestment Act (ARRA). The $226.7 million not funded by ARRA required Nebraska to contribute approximately $45.3 million in matching funds. Since the inception of the Program, the State has appropriated $2.3 million to meet its matching requirement. Additional matching funds were obtained through the issuance of revenue bonds and the use of Administrative Cash Funds.

The Department's primary activities with regard to the Program include the making of loans for facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department, the Program's Intended Use Plan, loan interest rates, and revenue bonding amounts.

KEY OFFICIALS AND DEPARTMENT CONTACT INFORMATION

Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program Executive Management

Name	Title
Jim Macy	Director
Kevin Stoner	Deputy Director – Administration
Kara Valentine	Deputy Director – Water Programs
Jerad Jelinek	Accounting & Finance Manager

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SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Environment and Energy (Department) – Drinking Water State Revolving Fund Program (Program), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. **Financial Statement Errors:** The Department made errors in preparing its financial statements. Adjustments were proposed and made by the Department for balancing issues, errors in the identification of accrual amounts, coding of interest receipts, and classification of operating expenses.

2. **Cash Draw Procedures:** During testing of cash draws, it was noted that the Department did not have adequate procedures to ensure all amounts drawn on Federal grants could be verified to actual expenditures.

More detailed information on the above items is provided hereinafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Financial Statement Errors

The Department lacked adequate procedures for ensuring the accuracy of its financial statements. During fiscal year 2022, the Department contracted with a local accounting firm for compilation of the Program's financial statements. The contract provided for the Program's financial statements to be received by December 9, 2022, to allow the Department time to review the work product. However, an initial working copy of the financial statements was not received until January 13, 2023. The Department had additional communications with the accounting firm to resolve several errors identified in the working copy of the financial statements, but errors were not able to be resolved and the Department did not receive a final version of the financial statements from the accounting firm. The Department then completed its review and revised the working copy of the financial statements to provide to the Auditor of Public Accounts (APA) on March 3, 2023. During our audit of the Program trial balance and financial statements, we noted the following errors:

- When comparing Operating Expenses on the Statement of Revenues, Expenses, and Changes in Net Position to the Trial Balance, a $28,201 balancing issue was noted due to two errors with the recording of prior year entries:
    - A prior year entry that recorded a $2,189 revenue and receivable was reversed after prior year fiscal year end and manually adjusted on the fiscal year 2021 financial statements. As the reversing entry was completed in FY 2022, an adjustment was also needed on the fiscal year 2022 financial statements to remove the activity.
    - During fiscal year 2020, part of the bond entry was not completed during the fiscal year and was manually recorded on the financial statements with a $30,390 debit to Cash in State Treasury that should be to Bond Revenue (Expense). A manual adjustment was also made in fiscal year 2021 with the same adjustment to Cash in State Treasury. To correct the balancing error in fiscal year 2022, an adjustment was proposed to record a Non-Operating Revenue (Expense).
- During the process of reviewing payments to communities for accrual on the Program's financial statements, the Department did not review grant payments and did not include loan forgiveness payments in the report run for July 2023. As a result, Due to Grant Recipients was understated by $332,419; Loan Forgiveness expense was understated by $312,419; and 15% Source Water Assessment Program expense was understated by $20,000. Additionally, as the $20,000 of grants expended from the 15% Source Water Assessment Program was expended from Federal funds and not drawn at fiscal year end, Due From Federal Government receivable and Capital Contributions – Federal Grants revenue were understated by $20,000.
- During testing of Interest on Loans revenue, a variance was noted for $23,817. This variance was due to a Clean Water State Revolving Fund (CWSRF) loan repayment received where the principal repayment and loan administration fee were receipted to the CWSRF in Enterprise One (E1), the State's accounting system, but the loan interest was receipted to a fund in E1 associated with the Program. This caused Cash in State Treasury and Interest on Loans revenue to be overstated by $23,817 for the Program.
- During testing of expenses from July and August 2022, the APA noted one $30,000 expense that was fully accrued as a fiscal year 2022 expense but was for service provided from June 2022 to May 2023. This caused Due from Federal Government receivable, Accounts Payable & Accrued Liabilities, Capital Contributions – Federal Grants revenue, and 15% Source Water Assessment Program expense all to be overstated by $27,500.

- In combination with the balancing issues noted above, errors made in the calculation of Operating Expenses caused the following lines to be misstated:
  - Administrative Costs From Fees was understated by $48,726
  - 15% Source Water Assessment Program was overstated by $3,587
  - 10% Public Water Supply System was overstated by $60,064
  - Loan Forgiveness was overstated by $19,081

The APA discussed the errors identified with the Department, and adjustments were made to correct them.

A similar finding was noted during the previous six audits.

A good internal control plan and sound accounting practices require procedures to ensure that financial information is accurate and complete for proper financial statement presentation.

Without such procedures, there is an increased risk of materially misstating the financial statements.

> We recommend the Department strengthen procedures to ensure accounting entries are proper and complete for accurate financial presentation.

Department Response: The agency agrees with the Financial Statement preparation audit finding. The Accounting/Fiscal Team is currently developing a revised template for DW & CW SRF Financial Statement creation/preparation. This new template will account for most of the items identified in Auditor of Public Accounts CW & DW SRF annual audit. In conjunction with revised documentation, the Accounting/Fiscal team will have more lead time to create and review financial statements and the underlying financial data on the upcoming annual report (for FY23) simply by having continuity within the accounting and finance unit. Continuity and staffing levels will allow the agency more formulaic and raw data review time. NDEE has increased and strengthened communication between program and accounting staff to help reduce coding errors and miscoded expenditures. NDEE has introduced and continued reconciliations between program data and accounting system data. All of the changes described above occurred within State Fiscal Year 22-23 and will continue to be refined and implemented into SFY 23-24. NDEE recognizes the upcoming DW & CW SRF audit could result in similar or repeat findings due to the timing of these changes. Implemented changes should result in more accurate Financial Statement preparation and financial data beginning SFY 23-24.

2. <u>Cash Draw Procedures</u>

The Department lacked adequate procedures for ensuring that all amounts drawn on Federal grants could be verified to actual expenditures recorded in E1. During fiscal year 2022, the Department would perform drawdowns of actual amounts expended for aid payments made to communities for various projects as they occurred and would also perform drawdowns on a bi-weekly basis for all other payments, such as payroll. The procedures for the bi-weekly draws included utilizing information from the Federal draw system, as well as grant project status reports and cash status reports from E1. While some reports could be recreated, the cash status report from the accounting system is a point-in-time report that is not able to be re-generated at a subsequent date. The Department also indicated that amounts drawn from the Federal system and amounts recorded in E1 were reconciled on a bi-weekly and monthly basis. However, when two monthly reconciliations, December 2021 and June 2022, were requested the Department was not able to provide documentation of the reconciliation. Bi-weekly reconciliations were obtained and reviewed as part of the supporting documentation for cash drawdowns; however, the following issues were noted:

COMMENTS AND RECOMMENDATIONS
(Concluded)

- During testing of contractual service expenditures paid with Federal funds, we requested from the Department supporting documentation of when Federal funds were drawn for those disbursements to ensure the Department was following proper cash management requirements to minimize the time between when the funds were drawn down from the Federal government and when they were spent. For two of the six Federal expenditures tested, the Department was unable to provide documentation to support that the amount drawn included the tested expenditure.

- During the review of the support for one of the draws provided, the Department was drawing down amounts for payroll and indirect costs of $91,196, plus an additional $109,523 based on the cash status report generated at that time. During our review, it appears that the additional $109,523 also would have included the $91,196 in payroll and indirect costs, resulting in an apparent overdraw of the Federal grants by that amount. In discussions with the Department, it could not be adequately verified that there was not a duplication of amounts drawn.

Title 31 CFR 205.33(a) (July 1, 2021) sates, in relevant part, the following:

> *A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate, cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs . . . .*

A good internal control plan and sound accounting practices require procedures to ensure that cash drawdowns from Federal funds are adequately supported, and amounts drawn are reconciled to actual expenditures paid and revenues received.

Without such procedures, there is an increased risk of both non-compliance with Federal regulations and funds being drawn from Federal grant awards with the time between drawdown and disbursement of the funds for Federal program purposes not being minimized.

> We recommend the Department strengthen current procedures to ensure cash drawdowns from the Federal government reconcile to revenues recorded in the Department's accounting system and reconcile to the actual expenditures recorded in the accounting system for the grant. Additionally, these procedures should only include utilization of reports that could be regenerated at later points to further mitigate the risk of duplication of amounts requested and drawn down from the Federal government.

Department Response: The agency agrees with this audit finding. The Accounting/Fiscal team implemented cash draw changes in April of 2023 to address cash draw timing issues and documentation related to draws. The Accounting/Fiscal team implemented a monthly series of reconciliations that include Enterprise One revenues reconciled with ASAP draws. The reconciliations use Enterprise One and ASAP reports, all of which can be replicated at any point in time with minimal exceptions. These changes will align the agency's draw process with Federal draw timeliness guidelines. Because these changes took effect in the last quarter of State Fiscal Year 22-23, the agency understands similar audit findings could occur in the 22-23 CW & DW SRF audit due to the timing of the audit and the changes in relation to the State Fiscal Year.

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NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environment and Energy
Lincoln, Nebraska

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program (Program), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, as listed in the Table of Contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Program, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Program are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the Nebraska Department of Environment and Energy as of June 30, 2022, and the changes in its financial position, or its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 through 12 be presented to supplement the basic financial statements. Such information, is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards* and Regulatory Requirements

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Regulatory Requirements

In accordance with the *U.S. Office of Management and Budget (OMB) Compliance Supplement*, we have also issued our report dated April 27, 2023, on our consideration of the Program's internal control over compliance and our tests of its compliance with certain provisions of laws, regulations, and grants.

Brad Ashley

Lincoln, Nebraska	Brad Ashley, CPA
April 27, 2023	Audit Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Environment and Energy (Department) – Drinking 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, 2022. 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 the following: 1) Statement of Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; 3) Statement of Cash Flows; and 4) Notes to the Financial Statements.

- The Statement of Net Position presents information on all of the Program's assets and liabilities, with the difference between the two reported as net position.
- The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Program's net position 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 information that is essential to a full understanding of the data provided in the financial statements.

ANALYSIS OF BALANCES AND TRANSACTIONS – ENTERPRISE FUND

Changes in Net Position

For the fiscal year ended June 30, 2022, the Ending Net Position of the Program increased by 5.0% (more than $11 million). The cash balance in current assets increased significantly due to several large loan payoffs, amounting to over $6 million for the fiscal year. Additionally, the net increase in Loans Receivable was more than $5 million. The increase in current liabilities is mainly due to an increase in Accounts Payable and Accrued Liabilities of $41,285 and an increase in Due to Grant Recipients of $54,841.

Statement of Net Position

	2022	2021	% Change
Current Assets	$ 157,033,394	$ 152,593,848	2.9 %
Non-Current Assets	82,974,378	75,915,057	9.3 %
Total Assets	**240,007,772**	**228,508,905**	**5.0 %**
Current Liabilities	868,854	762,480	14.0 %
Non-Current Liabilities	105,398	22,484	368.8%
Total Liabilities	**974,252**	**784,964**	**24.1 %**
Net Position:			
Net Investment in Capital Assets	575,593	480,933	19.7 %
Unrestricted	238,457,927	227,243,008	4.9 %
Total Net Position	**$ 239,033,520**	**$ 227,723,941**	**5.0 %**

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Changes in Net Position

	2022	2021	% Change
Loan Fees Administration	$ 707,580	$ 745,037	-5.0 %
Interest on Loans	1,619,177	1,700,048	-4.8%
Other Operating Income	-	51,972	-100.0 %
Total Operating Revenues	**2,326,757**	**2,497,057**	**-6.8 %**
Administration & Set-Asides	2,452,026	2,140,216	14.6 %
Loan Forgiveness	3,034,031	2,933,262	3.4 %
Emergency Grants	-	12,076	-100.0%
Total Operating Expenses	**5,486,057**	**5,085,554**	**7.9 %**
Operating Income (Loss)	**(3,159,300)**	**(2,588,497)**	**22.1%**
Federal Grants	12,343,588	9,432,276	30.9 %
Interest Revenue	2,154,891	1,990,564	8.3 %
Bond Revenue (Expense)	790	(5,687)	-113.9 %
Other Non-Operating Revenue (Expense)	(30,390)	-	-100.0 %
Total Non-Operating Revenue (Expense)	**14,468,879**	**11,417,153**	**26.7 %**
Change in Net Position	**11,309,579**	**8,828,656**	**28.1 %**
Beginning Net Position July 1	**227,723,941**	**218,895,285**	**4.0 %**
Ending Net Position June 30	**$ 239,033,520**	**$ 227,723,941**	**5.0 %**

The amount of funds used from each annual capitalization grant will vary each year and is dependent upon several variables including the number of communities applying for loans, the rate and total of reimbursement requests by communities, and the number of loans successfully processed; all of which affects the drawing of federal capitalization grant funds.

Changes are inherent in the Program and are expected when draws are based on community requests.

ECONOMIC OUTLOOK

The State has continued to take steps to avert major economic impacts both statewide and within communities. The State's small rural communities are financially challenged when faced with funding major capital projects. Aging and declining population bases make it difficult to draw the amount of user fees needed to fund capital infrastructure projects to address drinking water issues. Supply chain effects on equipment and material purchases, along with inflationary pressures due to funding availability resulted in six to eight month project start delays coupled with an approximate 60% cost increases, and from all available information, those are still forecasted.

DEBT ADMINISTRATION

Short-Term Debt

The Program had debt activity during the fiscal year that was short-term in nature resulting from a bond issue. The issue was for $2,200,000, which was repaid and retired within the same fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

LOANS AND GRANTS TRACKING SYSTEM SOFTWARE (LGTS)

LGTS is a comprehensive software application developed by Northbridge Environmental, which is designed for Nebraska's State Revolving Fund (SRF) staff to track and manage all aspects of their Clean and Drinking Water SRF programs from project loan application to final repayment, as well as to track all capital contributions, set-aside spending, and bond issuance and repayment.

The software was developed to address the data management needs for all of the steps in the SRF management process, including priority list development, facility location and identification, documentation and files, engineering review and milestone tracking, inspections, contacts for a project, contract approvals and change orders, detailed payment request processing, project spending forecasts, encumbrances, funding draws and transfers, disbursements, amortization schedule creation and management, billing, repayment processing, fund deposits, and tracking of repaid funds by their original source, report and data generation, and more. The software also contains a general ledger that each state can customize to match existing accounting systems and create trial balances, financial statements, and related financial schedules.

Nebraska's SRF Programs have implemented the LGTS system. The following is a brief timeline for the development and processing of LGTS system:

- For fiscal year ended June 30, 2014: Planning of the implementation phases, business rules, and hardware and software installations.
- For fiscal year ended June 30, 2015, and June 30, 2016: LGTS system was used concurrently with existing systems to create a basis for reliability and consistency.
- For fiscal year ended June 30, 2017: Existing internal system was discontinued and LGTS became the sole system for use within the SRF Program alongside the State Accounting System.
- For fiscal year ended June 30, 2020: Began building a web based LGTS to enhance SRF projects and financial loan/grant reporting and tracking. LGTS switched to a web-based format in August 2020.
- For fiscal year ended June 30, 2021: Began building a cash flow model.
- For fiscal year ended June 30, 2022: LGTS is used in daily operations.

Since implementation, the Department has found that the LGTS has reduced the occurrence of human error, has increased efficiency and time savings, and overall increased productivity on projects.

The Environmental Protection Agency (EPA) recommended the states contract with Northbridge directly to allow more flexibility in the work. In order for our Department to complete the implementation of the web-based version of LGTS, and to have continued support on our current software that is used by our personnel on a daily basis, NDEE signed a new contract with Northbridge in the fiscal year ended June 30, 2020.

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF NET POSITION
June 30, 2022

		Enterprise Fund
ASSETS		
CURRENT ASSETS:		
Cash in State Treasury (Note 2)	$	149,351,898
Due from Federal Government		160,339
Interest Receivable		203,549
Loans Receivable (Note 3)		7,317,608
TOTAL CURRENT ASSETS		157,033,394
NON-CURRENT ASSETS		
Loans Receivable (Note 3)		82,398,785
Capital Assets, Net (Note 4)		575,593
TOTAL NON-CURRENT ASSETS		82,974,378
TOTAL ASSETS	$	240,007,772
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable & Accrued Liabilities	$	154,587
Due to Grant Recipients (Note 1)		701,240
Compensated Absences (Note 6)		13,027
TOTAL CURRENT LIABILITIES		868,854
NON-CURRENT LIABILITIES:		
Compensated Absences (Note 6)		105,398
TOTAL NON-CURRENT LIABILITIES		105,398
TOTAL LIABILITIES		974,252
NET POSITION		
Net Investment in Capital Assets		575,593
Unrestricted		238,457,927
TOTAL NET POSITION		239,033,520
TOTAL LIABILITIES AND NET POSITION	$	240,007,772

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

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2022

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	$ 707,580
Interest on Loans	1,619,177
TOTAL OPERATING REVENUES	2,326,757
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	466,788
15% Source Water Assessment Program (Note 10)	691,575
2% Technical Assistance to Small Systems (Note 10)	146,912
10% Public Water Supply System (Note 10)	989,069
4% Administrative Costs from Grants (Note 10)	157,682
Loan Forgiveness (Note 10)	3,034,031
TOTAL OPERATING EXPENSES	5,486,057
OPERATING LOSS	(3,159,300)
NON-OPERATING REVENUE (EXPENSE)	
Capital Contributions - Federal Grants (Note 7)	12,343,588
Interest on Fund Balance - State Operating Investment Pool (Note 9)	2,154,891
Bond Revenue (Expense)	790
Other Non-Operating Revenue (Expense)	(30,390)
TOTAL NON-OPERATING REVENUE (EXPENSE)	14,468,879
CHANGE IN NET POSITION	11,309,579
TOTAL NET POSITION, BEGINNING OF YEAR	227,723,941
TOTAL NET POSITION, END OF YEAR	$ 239,033,520

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

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	$ 11,357,178
Payments to Borrowers	(14,694,487)
Payments for Administration	(506,062)
Payments for 15% Source Water Assessment Program	(636,037)
Payments for 2% Technical Assistance to Small Systems	(136,912)
Payments for 10% Public Water Supply System	(906,662)
Payments for 4% Administrative Costs from Grants	(133,530)
Payments for Loan Forgiveness	(2,979,190)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(8,635,702)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received from the Environmental Protection Agency	12,653,570
Receipts from Bond Issue	2,200,000
Repayment of Bond	(2,200,000)
Other Non-Operating Revenue (Expenses)	(30,390)
Bond Receipts (Payments)	790
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	12,623,970
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Purchase of Capital Assets	(93,036)
NET CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	(93,036)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	2,124,505
NET CASH FLOWS FROM INVESTING ACTIVITIES	2,124,505
Net Increase in Cash and Cash Equivalents	6,019,737
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	143,332,161
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 149,351,898
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating Loss	$ (3,159,300)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	(5,664,066)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	39,661
Increase/(Decrease) in Compensated Absences	93,162
Increase/(Decrease) in Payables to Grant Recipients	54,841
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ (8,635,702)

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2022

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environment and Energy (Department) – Drinking 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) and the Trustee – Wells Fargo Bank (Trustee) for the State match bond accounts.

B. Reporting Entity

The Program is established under and governed by the Safe Drinking Water Act of the Federal Government and the Drinking Water State Revolving Fund Act 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 that are fiscally dependent on the Program or whose relationship with the Program is so significant that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (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. The Department is also considered financially accountable if an organization is fiscally dependent on, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the Program. No component units were identified. The Program is part of the primary government for the State of Nebraska's reporting entity.

C. Fund Structure

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

- Drinking Water Facilities Funds – Federal Funds 48416 and 48418; Repaid Principal and Bond Funds 68481, 68482, 68483, 68484, and 68485.

1. Summary of Significant Accounting Policies (Continued)

- Drinking Water Review Fund – Federal Fund 48419, not supported by a grant
- Drinking Water Administration Fund – Cash Fund 28630

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

The activity of these State of Nebraska funds has 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 it and the Department have decided that the determination of revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA the Program will be available in perpetuity, as intended.

This fund classification differs from the classification used in the State of Nebraska's Annual Comprehensive Financial Report (ACFR). The ACFR classifies the Cash funds, Federal funds, and Bond funds as special revenue funds, as they meet the definition of special revenue funds under GASB Statement 54. In that statement, special revenue funds are defined as funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes.

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. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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 Statement of Net Position. Enterprise fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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.

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 having original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2022, approximates fair value due to their short-term nature. Banks pledge collateral, as required by law to guarantee State funds held in time and demand deposits.

1. Summary of Significant Accounting Policies (Continued)

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, which 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. 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. After the final disbursement has been made, the amortization schedule identified in the loan agreement is adjusted for the actual amounts disbursed. The interest rates on loans range from 0.0% to 4.0%, and the terms on outstanding loans range from 10 to 40 years. Disadvantaged communities may have up to 40 years to repay.

The Program loans are funded from Federal capitalization grants, State match funding, and the Drinking Water State Revolving Fund. The grants are funded, on average, 83.33% from Federal funds and 16.67% from State match funds. Reimbursements to communities are paid 100% from State matching funds until they have been exhausted, and then from Federal capitalization grant funds or Drinking Water State Revolving funds. The Drinking Water State Revolving Fund is financed through principal repayments plus interest earnings becoming available to finance new projects, allowing the funds to "revolve" over time.

The current loans receivable amount was determined using the amount of principal payment due to the Program at June 30, 2022, which is collectible in fiscal year 2022. Loans receivable that were paid in full, prior to their due date, as of August 31, 2022, were included in the current loans receivable balance as opposed to the long-term loans receivable balances.

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 is 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.

H. Compensated Absences

All permanent employees working for the Program earn sick and annual leave and are allowed to accumulate compensatory leave rather than be paid overtime. Temporary and intermittent employees are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees currently eligible to receive termination payments and other employees expected to become eligible in the future to receive such payments upon termination, are included.

1. Summary of Significant Accounting Policies (Continued)

Program employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55 – or a younger age, if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

The Program's financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

I. Due to Grant Recipients

Planning Grants for Preliminary Engineering Reviews are awarded through the Administration Cash Fund. The Program awards Planning Grants to communities with populations below 10,000 where the Public Water System (PWS) is operated by a political subdivision. Available grants are given upon evidence that the eligible PWS has entered into a contract with a professional engineer to develop a preliminary engineering report. Planning Grants are intended to provide financial assistance to a PWS for projects seeking funding through the Water Wastewater Advisory Committee common pre-application process. The grant covers 90% of the preliminary engineering report and other eligible costs and will require 10% matching funds from the PWS.

Source Water Protection Grants are also awarded through the Federal Capitalization Grant 15% set-aside funds. They are available for proactive projects geared toward protecting Nebraska's drinking water supplies and will address drinking water quality, quantity, security, and/or education. Eligible applicants are political subdivisions that operate a PWS serving a population of 10,000 or fewer.

Loan Forgiveness Grants are additional subsidization from the Program that is offered to eligible projects in accordance with the annual Intended Use Plan (IUP) and are provided concurrent with loans. Loan forgiveness funds will be targeted primarily to the highest ranked eligible projects on the Priority Funding Lists in the IUP and those that address public health needs, on a tiered forgiveness percentage based on population and median household income. The loan recipient will not be required to repay the portion of the loan principal that has been designated as loan forgiveness under the terms and conditions of the loan contract. Loan forgiveness is considered a grant for purposes of the financial statements, since repayment is not required.

For Planning Grants, Source Water Protection Grants, and Loan Forgiveness awards, once the municipality submits proof of vendor payment to the Department, it is reimbursed for its project costs by the Program. The Program's financial statements recognized the expense and accrued liability to the Program when the municipality incurred the project expense, which may not be in the same fiscal year as when costs were reimbursed by the Program.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

J. 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 operating revenues of the Program include loan fees administration and interest on loans, since making loans is the primary purpose of the Program. The operating expenses of the Program are administration and set-aside expenses and loan forgiveness.

K. Capital Assets

The Program has two capital assets, the Loans and Grants Tracking System (LGTS) software and Certification Portal, which are recorded at cost. In the fiscal year ended June 30, 2020, the Department signed a contract directly with Northbridge to continue to provide technical support and guidance of the LGTS software. Additional work is being done to improve the software and allow easier access for staff working outside of the office.

The Certification Portal was created in 2021 to enhance, integrate, and allow certification renewals to occur online.

The LGTS and Certification Portal are considered intangible capital assets, and the Department follows the capitalization policy set forth by the State of Nebraska for intangible capital assets, which requires capitalization of such assets when the cost of such asset is in excess of $100,000 and has an expected useful life of greater than one year. The LGTS software and Certifications Portal have an estimated useful life of seven years.

Depreciation/amortization will begin upon completion of the development phase and the software being put into production and it will be computed using the straight-line method over the estimated useful life of the asset.

2. Cash in State Treasury

Cash in State Treasury - Cash in State Treasury, as reported on the Statement of Net Position, 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 ACFR for the fiscal year ended June 30, 2022. All interest revenue is allocated to the General Fund except allocations required by law to be made to other funds. All funds of the Program were designated for investment during fiscal year 2022. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee – As of June 30, 2022, there were no Program funds held by the Trustee, as all outstanding bonds were paid off.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Loans Receivable

As of June 30, 2022, the Program had 134 outstanding community loans that totaled $89,716,393. The outstanding balances of the 10 communities with the largest loan balances, which represent 46.4% of the total loans, were as follows:

Community	Outstanding Balance
Lincoln	$ 9,627,501
Blair	5,959,928
Syracuse	4,282,786
South Sioux City	4,048,271
York	3,805,806
Ogallala	3,199,557
MUD - Omaha	2,894,288
Oshkosh	2,674,880
Scribner	2,553,415
Sidney	2,548,483
TOTAL	**$ 41,594,915**

4. Capital Assets

The Program's capital assets activity for the year ended June 30, 2022, was:

	Beginning Balance	Additions	Retirements	Ending Balance
Software Development In-Progress				
Loans and Grants Tracking System (LGTS)	$ 453,586	$ 34,595	$ -	$ 488,181
Certifications Portal	27,347	60,065	-	87,412
	$ 480,933	$ 94,660	$ -	$ 575,593

5. Bonds Payable

The State has entered into a special financing arrangement with Nebraska Investment Finance Authority (NIFA), an independent instrumentality of the State exercising essential public functions, to provide matching funds for the Program. NIFA issues the bonds, and the proceeds are held by the Trustee until they are needed by the Program for loan purposes.

The proceeds of short-term revenue bonds are used by the Department to provide the 20% match requirements for the Department's Federal Capitalization Grants. Interest revenue from Program loans is pledged to pay off the bonds. During the fiscal year, the Program issued and retired Series 2021A short-term revenue bonds for $2,200,000 and utilized $200 of administrative cash for the fiscal year 2021 grant. Bond Payable activity for fiscal year 2022 on the short-term bond was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	$ -	$ 2,200,000	$ 2,200,000	$ -

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Non-Current Liabilities

Changes in non-current liabilities for the year ended June 30, 2022, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 22,484	$ 82,914	$ -	$ 105,398	$ 13,027

7. Capital Contributions

Included in the net position is the total amount of capitalization grants drawn from the EPA by the Department. The following summarizes the EPA capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2022. The year column relates directly to the grant amount column and represents the fiscal year the grant funds were appropriated by Congress. The amount drawn column is as of June 30, 2022, and may have been drawn over multiple years.

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1997	$ 12,824,000	$ 12,824,000	$ -
1998	7,121,300	7,121,300	-
1999	7,463,800	7,463,800	-
2000	7,757,000	7,757,000	-
2001	7,789,126	7,789,126	-
2002	8,052,500	8,052,500	-
2003	8,004,100	8,004,100	-
2004	8,303,100	8,303,100	-
2005	8,285,500	8,285,500	-
2006	8,229,300	8,229,300	-
2007	8,229,000	8,229,000	-
2008	8,146,000	8,146,000	-
2009 - ARRA	19,500,000	19,500,000	-
2009	8,146,000	8,146,000	-
2010	13,573,000	13,573,000	-
2011	9,418,000	9,418,000	-
2012	8,695,558	8,695,558	-
2013	8,533,907	8,533,907	-
2014	8,845,000	8,845,000	-
2015	8,681,560	8,681,560	-
2016	8,280,275	8,280,275	-
2017	8,312,000	8,312,000	-
2018	10,914,261	10,914,261	-
2019	11,103,000	11,103,000	-
2020	11,011,000	10,017,009	993,991
2021	11,001,000	8,646,846	2,354,154
TOTAL	**$ 246,219,287**	**$ 242,871,142**	**$ 3,348,145**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Capital Contributions (Concluded)

Not included in the above grant totals are the amounts set aside as in-kind contributions for the Loans and Grants Tracking System (LGTS) software development. The total amount of in-kind contributions utilized for the LGTS software as of June 30, 2022, was $325,682. Additional in-kind contributions were received and capitalized for the Clean Water State Revolving Fund Program which also utilizes the LGTS software.

8. Loan Fees Administration

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is not included in the loan principal. It is calculated on a semi-annual basis and billed when the loan principal and interest payments are due. The fee is applied to all loans in accordance with Title 131 Nebraska Administrative Code (NAC) Chapter 2, the annual IUP, and the loan agreement.

9. Interest on Fund Balance – State Operating Investment 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 25th day of each subsequent month.

10. Operating Expenses

The operating expenses of the Program are classified, for financial reporting purposes, into six categories. There were expenses related to four set-aside activities established under § 1452 of the Safe Drinking Water Act. The four set-aside activities are:
- 15% Source Water Assessment Program
- 10% Public Water Supply System
- 4% Administrative Costs from Grant
- 2% Technical Assistance to Small Systems

All set-asides are required to be Federally funded. State match dollars can only be used for the purpose of providing loans to owners of PWS systems. Other significant categories of expenses are Loan Forgiveness and Administrative Costs from Fees.

The following is an explanation of these categories:

Administrative Costs from Fees

To meet the long-term administrative needs of the Program, an annual fee of up to 1% is charged against the outstanding principal on loans. This fee is deposited into a separate account and is used for administrative costs of the Program. Revenues from fees can be used to provide the capitalization grant match, loan forgiveness, or Project Planning Activities and Report grants.

15% Source Water Assessment Program

Identified in federal regulations as local assistance and other state programs, a state may use up to 15% of the capitalization grant amount for specified uses, as follows:

- Provide assistance to a community water system to implement voluntary, incentive-based source water quality protection measures.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. Operating Expenses (Concluded)

- Provide funding to delineate and assess source water protection areas.
- Support the establishment and implementation of wellhead protection programs; and
- Provide funding to a Public Water System to implement technical and/or financial assistance under the capacity development strategy.

10% Public Water Supply System

A state may use up to 10% of the grant funds awarded to do the following:

- Administer the State Public Water System Supervision Program.
- Administer or provide technical assistance through source water protection programs, which includes the Class V portion of the Underground Injection Control Program.
- Develop and implement a capacity development strategy; and
- Develop and implement an operator certification program.

4% Administrative Costs from Grant

A state may use up to 4% of the grant funds awarded for Program administration. These activities may include Program costs for day-to-day Program management activities and other costs associated with debt issuance, financial management, consulting, and support services necessary to provide a complete Program. In addition, technical assistance to PWS can be funded this set-aside.

2% Technical Assistance to Small Systems

A state may use up to 2% of the grant funds awarded to provide technical assistance to public water systems serving 10,000 people or less. If the State does not use the entire 2% for these activities against a given grant award, it can reserve the excess authority and use it for the same activities in later years. A State may use these funds to support a technical assistance team or to contract with outside organizations to provide technical assistance.

Loan Forgiveness

The total of expenses reported as Loan Forgiveness is the amount of loan principal payments subsidized to communities meeting the definition of “disadvantaged” or which the Program expects to become disadvantaged as a result of the project. The amount of these subsidies during a particular fiscal year varies based on the capitalization grant conditions for that year.

11. State Employees Retirement Plan (Plan)

The single-employer Plan became effective by statute on January 1, 1964. The Public Employees Retirement Board was created in 1971 to administer the Plan. 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 either to continue participation in the defined contribution option or to 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. The benefits and funding policy of the Plan are established and can only be amended by the Nebraska Legislature.

11. 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 18 years may exercise the option to begin participation in the retirement system.

Contribution – Per statute, each member contributes 4.8% of his or her 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 will 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 will 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, 2022, employees contributed $33,490, and the Department contributed $52,244. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

The State of Nebraska Annual Comprehensive Financial Report (ACFR) also includes pension-related disclosures. The ACFR report is available from the Nebraska Department of Administrative Services – Accounting Division or on the Nebraska Auditor of Public Accounts' website at auditors.nebraska.gov.

12. 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 includes $4,700,000 with a self-insured retention of $300,000 (coverage includes hot pursuit). There is an additional one-time corridor retention of $300,000. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a $1,000 deductible for this coverage.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

12. Contingencies and Commitments (Concluded)

B. Life insurance for eligible employees.

C. Crime coverage, with a limit of $10,975,000 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 $200,700,000, with a self-insured retention of $300,000 per loss occurrence. Newly acquired properties are covered up to $5 million for 30 days and $1 million for 90 days, if the property has not been reported. If not reported after 90 days, the property is not covered. 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. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each department based on total department 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 department 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. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

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

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING 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*

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environment and Energy
Lincoln, Nebraska

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program (Program), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated April 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Program's financial statements are free from 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 statements. 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.*

Additional Items
We also noted certain additional items that we reported to management of the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program in the Comment Section of this report as Comment Number 1 (Financial Statement Errors) and Comment Number 2 (Cash Draw Procedures).

Nebraska Department of Environment and Energy's Response to Findings
Government Auditing Standards requires the auditor to perform limited procedures on the Program's responses to the findings identified in our audit and described in the Comment Section of the report. The Program's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brad Ashley

Lincoln, Nebraska
April 27, 2023

Brad Ashley, CPA
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NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
DRINKING WATER STATE REVOLVING FUND PROGRAM
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY – DRINKING WATER STATE REVOLVING FUND PROGRAM IN ACCORDANCE WITH THE OMB COMPLIANCE SUPPLEMENT

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environment and Energy
Lincoln, Nebraska

Report on Compliance for the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program

Opinion on Compliance for the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program

We have audited the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program's (Program) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Program for the year ended June 30, 2022.

In our opinion, the Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Program for the year ended June 30, 2022.

Basis for Opinion on the Nebraska Department of Environment and Energy – Drinking Water State Revolving Fund Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Program. Our audit does not provide a legal determination of the Program's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts, or grant agreements applicable to the Program.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Program's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Program's compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material noncompliance whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Program's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- obtain an understanding of the Program's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined below. However, material weaknesses or significant deficiencies may exist that were not identified.

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brad Ashley

Lincoln, Nebraska
April 27, 2023

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