

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

JULY 1, 2022, THROUGH JUNE 30, 2023

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Issued on April 16, 2024

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

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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, 2023, the EPA had awarded a cumulative total of \$307.7 million in capitalization grants to the State of Nebraska. Of the \$307.7 million awarded, approximately \$19.5 million was funded by the American Recovery and Reinvestment Act (ARRA) and \$54.4 million was funded by the Bipartisan Infrastructure Law (BIL). Of the \$54.4 million funded by BIL, \$18.0 million of the award required the State to contribute approximately \$1.8 million. The \$233.8 million not funded by ARRA or BIL required Nebraska to contribute approximately \$46.8 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.

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
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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

* Jim Macy announced his retirement effective April 19, 2024, and Thad Fineran served as Interim Director starting April 1, 2024.

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

COMMENT AND RECOMMENDATION

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.

Financial Statement Errors

During our audit of the Program trial balance and financial statements, we noted the following errors:

- When determining the allocation of the Loans Receivable balance between current and non-current assets, the Department identified loan repayments, totaling \$7,266,681, due during fiscal year 2024 and recorded as current loans receivable. However, this amount included interest and fees that would not be included in the loans receivable balance. This caused current loans receivable to be overstated by \$2,135,931 and non-current loans receivable to be understated by \$2,135,931.
- During testing of accrual entries for grants payable and accrued compensated absences, it was noted that \$6,073,287 of loan forgiveness and \$183,000 of compensated absences was from Federal funds and, therefore, would also include an accrual to record a Due from Federal Government receivable and a Capital Contributions – Federal Grants revenue. As a result, Due from Federal Government receivable and Capital Contributions – Federal Grants revenue were understated by \$6,256,287.
- During testing of the accrual of payments to subrecipients for reimbursement requests, it was determined that loan payments made for reimbursement requests received prior to June 30, 2023, but not paid until July 2023 should be accrued as fiscal year 2023 payables but were not accrued on the financial statements. As a result, Due to Loan Recipients payable and Loans Receivable were understated by \$2,086,464. This included \$735,678 of loan payments paid from Federal funds, which resulted in a \$735,678 understatement of Due from Federal Government receivable and Capital Contributions – Federal Grants revenue.
- While completing the accrual entry for loan forgiveness and grant payments, the Department did not accrue \$631,040 of loan forgiveness expenditures that were incurred by the subrecipient during fiscal year 2023 and did not review security grant payments for potential accrual. This caused Security Grants Activities expense to be understated by \$93,866, Loan Forgiveness expense to be understated by \$631,040, and Due to Grant Recipients payable to be understated by \$724,906. Additionally, Due from Federal Government receivable and Capital Contributions – Federal Grants revenue were understated by \$62,895 due to Security Grants that should be accrued and were paid from Federal funds.
- Errors were noted in the accrual entries made to correct a miscoded receipt of loan interest and a duplicate payment, which caused multiple lines on the Statement of Revenues, Expenses, and Changes in Net Position to be misstated. The following adjustment was proposed by the APA and made by the Department:

Other Non-Operating Revenue (Expense)	\$ 15,925
Interest on Loans	\$ (23,816)
Administrative Costs from Fees	\$ 5,804
15% Source Water Assessment Program	\$ 2,087

- When reversing the fiscal year 2022 grants payable accrual entry, two errors were noted: 1) a \$20,000 accrual of Federal revenue drawdowns was reversed from Other Non-Operating Revenue (Expense) but should be recorded to the Capital Contributions – Federal Grants; and 2) the grants payable accrual was reversed with \$701,240 of accrued expenditures recorded to Loan Forgiveness but should be \$681,240 of Loan Forgiveness and \$20,000 of Security Grant Activities.

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

COMMENT AND RECOMMENDATION

(Concluded)

- While reviewing the allocation of the compensated absences accrual for operating expense classification, it was noted the amounts allocated for the 15% Source Water expense and 10% Public Water expense were reversed. This caused the 10% Public Water Supply System expense to be understated by \$106,455 and the 15% Source Water Assessment Program expense to be overstated by \$106,455.
- When preparing the Statement of Cash Flows, DEE included a line for a \$162,727 cash flow from Depreciation Expense; however, as there were no cash flows when recording depreciation expense, it should be an adjustment to reduce the cash outflows for Payments for Administration and for Payments for 10% Public Water Supply System, which were overstated by \$81,364 and \$81,363, respectively.

The Auditor of Public Accounts (APA) discussed the identified errors with the Department, and audit adjustments were made to correct the errors when proposed by the APA.

A similar finding was noted during the previous seven audits.

A proper system of internal control 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. During Fiscal Year 22-23, the Accounting/Fiscal Team developed a revised template for DW & CW SRF Financial Statement creation/preparation. During the APA's audit, questions/recommendations were brought to the agency by the APA, to which the financial statement template was adjusted. We agree the adjustments are necessary to better reflect SRF financial activities in the financial statements. In conjunction with revised financial statement preparation file, the Accounting/Fiscal team will further develop procedures, supporting documentation and guidelines related to future SRF Financial Statement preparation. In SFY 22-23, NDEE continued to strengthen communication between program and accounting staff to help reduce coding errors and miscoded expenditures. NDEE continued reconciliations between program data and accounting system data, making corrections as needed, validating program data matches accounting transactions. All of the changes described above started in State Fiscal Year 22-23 and will continue to be refined and implemented in SFY 24-25. 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.

It should be noted this report is critical in nature, containing only our comment and recommendation on the areas noted for improvement and does not include our observation of any strengths of the Program.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. Responses have been objectively evaluated and recognized as appropriate in the report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.



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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, 2023, 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, 2023, 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, 2023, 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 8 through 10 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 who 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 16, 2024, 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 16, 2024, 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.

Lincoln, Nebraska
April 16, 2024



Brad Ashley, CPA
Audit Manager

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

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, 2023. 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, 2023, the Ending Net Position of the Program increased by 6.3% (approximately \$15 million). Non-Current Assets increased by 26.6% as \$20.0 million was loaned over the course of the fiscal year, in excess of loan repayment receipts. Also driving the net position change was an increase in overall liabilities, a \$7.2 million change, which represents an offsetting (from assets) increase of 736.4% over last fiscal year. The increase in current liabilities is mainly due to an increase in amounts due to grant recipients and an additional amount due to loan recipients. There was a \$4.7 million decrease in cash over the course of the fiscal year, representing a 3.2% change.

Statement of Net Position

	2023	2022	% Change
Current Assets	\$ 157,149,562	\$ 157,033,394	0.1 %
Non-Current Assets	105,005,358	82,974,378	26.6 %
Total Assets	262,154,920	240,007,772	9.2 %
Current Liabilities	7,978,898	868,854	818.3 %
Non-Current Liabilities	169,733	105,398	61.0 %
Total Liabilities	8,148,631	974,252	736.4 %
Net Position:			
Net Investment in Capital Assets	410,509	575,593	-28.7 %
Unrestricted	253,595,780	238,457,927	6.3 %
Total Net Position	\$ 254,006,289	\$ 239,033,520	6.3 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Changes in Net Position

	2023	2022	% Change
Loan Fees Administration	\$ 614,353	\$ 707,580	-13.2 %
Interest on Loans	1,419,065	1,619,177	-12.4 %
Total Operating Revenues	2,033,418	2,326,757	-12.6 %
Administration & Set-Asides	2,547,754	2,452,026	3.9 %
Loan Forgiveness	9,949,795	3,034,031	227.9 %
Security Grants	426,021	-	100.0 %
Total Operating Expenses	12,923,570	5,486,057	135.6 %
Operating Income (Loss)	(10,890,152)	(3,159,300)	244.7%
Federal Grants	22,682,909	12,343,588	83.8 %
Interest Revenue	3,177,932	2,154,891	47.5 %
Bond Revenue (Expense)	788	790	-0.3 %
Other Non-Operating Revenue (Expense)	1,292	(30,390)	-104.3 %
Total Non-Operating Revenue (Expense)	25,862,921	14,468,879	78.7 %
Change in Net Position	14,972,769	11,309,579	32.4 %
Beginning Net Position July 1	239,033,520	227,723,941	5.0 %
Ending Net Position June 30	\$ 254,006,289	\$ 239,033,520	6.3 %

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 existing drinking water issues. Supply chain effects on equipment and material purchases, along with inflationary pressures due to funding availability resulted in twelve- to eighteen-month project start delays coupled with an approximate 20 to 90% cost overruns, and from all available information, those are still forecasted to average at least 30%.

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 \$3,195,000, which was repaid and retired within the same fiscal year.

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
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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, which has been extended through February 2025.

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
 DRINKING WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF NET POSITION
 June 30, 2023

	Enterprise Fund
ASSETS	
CURRENT ASSETS:	
Cash in State Treasury (Note 2)	\$ 144,632,014
Due from Federal Government	7,087,944
Interest Receivable	298,854
Loans Receivable (Note 3)	5,130,750
TOTAL CURRENT ASSETS	157,149,562
 NON-CURRENT ASSETS:	
Loans Receivable (Note 3)	104,594,849
Capital Assets, Net (Note 4)	410,509
TOTAL NON-CURRENT ASSETS	105,005,358
TOTAL ASSETS	\$ 262,154,920
 LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable & Accrued Liabilities	\$ 75,882
Due to Grant Recipients (Note 1)	5,791,190
Due to Loan Recipients (Note 1)	2,086,464
Compensated Absences (Note 6)	25,362
TOTAL CURRENT LIABILITIES	7,978,898
 NON-CURRENT LIABILITIES:	
Compensated Absences (Note 6)	169,733
TOTAL NON-CURRENT LIABILITIES	169,733
TOTAL LIABILITIES	8,148,631
 NET POSITION	
Net Investment in Capital Assets	410,509
Unrestricted	253,595,780
TOTAL NET POSITION	254,006,289
TOTAL LIABILITIES AND NET POSITION	\$ 262,154,920

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, 2023

	Enterprise Fund
OPERATING REVENUES:	
Loan Fees Administration (Note 8)	\$ 614,353
Interest on Loans	1,419,065
TOTAL OPERATING REVENUES	2,033,418
OPERATING EXPENSES:	
Administrative Costs from Fees (Note 10)	293,006
15% Source Water Assessment Program (Note 10)	214,143
2% Technical Assistance to Small Systems (Note 10)	18,448
10% Public Water Supply System (Note 10)	1,540,041
4% Administrative Costs from Grants (Note 10)	482,116
Security Grants Activities (Note 10)	426,021
Loan Forgiveness (Note 10)	9,949,795
TOTAL OPERATING EXPENSES	12,923,570
OPERATING LOSS	(10,890,152)
NON-OPERATING REVENUE (EXPENSE):	
Capital Contributions - Federal Grants (Note 7)	22,682,909
Interest on Fund Balance - State Operating Investment Pool (Note 9)	3,177,932
Net (Bond Issuance Costs) and Debt Service Refund	788
Other Non-Operating Revenue (Expense)	1,292
TOTAL NON-OPERATING REVENUE (EXPENSE)	25,862,921
CHANGE IN NET POSITION	14,972,769
TOTAL NET POSITION, BEGINNING OF YEAR	239,033,520
TOTAL NET POSITION, END OF YEAR	\$ 254,006,289

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, 2023

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 9,344,233
Payments for Administration	(274,991)
Payments for 15% Source Water Assessment Program	(214,187)
Payments for 2% Technical Assistance to Small Systems	(28,448)
Payments for 10% Public Water Supply System	(1,422,398)
Payments for 4% Administration Costs from Grants	(445,414)
Payments for Loan Forgiveness	(4,859,845)
Payments to Borrowers	(25,233,557)
Payments for Security Grants	(426,021)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(23,560,628)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received From the Environmental Protection Agency	15,755,304
Receipts from Bond Issue	3,195,000
Repayment of Bond	(3,195,000)
Payment for Bond Issuance Costs	788
Other Non-Operating Revenue (Expense)	1,292
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	<u>15,757,384</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Contributions	-
Purchase of Capital Assets	733
NET CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	<u>733</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	3,082,627
NET CASH FROM INVESTING ACTIVITIES	<u>3,082,627</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(4,719,884)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	149,351,898
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 144,632,014</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (10,890,152)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase/(Decrease) in Accum Depreciation	162,727
(Increase)/Decrease in Loans Receivable	(20,009,206)
Increase/(Decrease) in Compensated Absences	76,670
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(77,081)
Increase/(Decrease) in Payables to Loan Recipients	2,086,464
Increase/(Decrease) in Payables to Grant Recipients	5,089,950
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (23,560,628)</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2023

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, 68485 and 68487.
- 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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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, 2023, 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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, 2023, which is collectible in fiscal year 2024. Loans receivable that were paid in full, prior to their due date, as of August 31, 2023, 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.

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, 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 50 or 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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 for PWSs from the Program that are offered to eligible PWSs 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. New disadvantaged community definition criteria were established in accordance with that presented in EPA's SRF BIL Implementation memorandum. Most notably, if a community has census tracts with a Social Vulnerability Index score higher than 0.80 per the Centers for Disease Control and Prevention mapping, which are part of the eleven added eligibility factors from the BIL memorandum. Loan recipients 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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 three years.

Depreciation/amortization of the LGTS capital asset is reflected in the June 30, 2023, financial statements and will continue over the 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, 2023. 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 2023. Amounts are allocated on a monthly basis based on average balances of all invested funds.

Amounts Held by Trustee – As of June 30, 2023, there were no Program funds held by the Trustee, as all outstanding bonds were paid off.

3. Loans Receivable

As of June 30, 2023, the Program had 138 outstanding community loans that totaled \$109,725,599. The outstanding balances of the 10 communities with the largest loan balances, which represent 52.4% of the total loans, were as follows:

Community	Outstanding Balance
Blair	\$ 10,852,496
Lincoln	8,920,194
Peru	7,429,017
Kearney	6,962,113
Syracuse	6,546,320
South Sioux City	4,287,059
York	3,501,173
Beatrice	3,326,698
Ogallala	3,020,058
MUD – Omaha	2,597,636
TOTAL	\$ 57,442,764

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Capital Assets

The Program's capital assets activity for the year ended June 30, 2023, was as follows:

	<u>Beginning Balance</u>	<u>Additions/ Adj</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Software Development-In-Progress	\$ 87,412	\$ (2,357)	\$ -	\$ 85,055
Total Capital Assets Not Being Depreciated	87,412	(2,357)	-	85,055
Software Development Completed				
Loans and Grants Tracking System (LGTS)	488,181	-	-	488,181
Less: Accumulated Depreciation	-	(162,727)	-	(162,727)
Total Software Development Completed	488,181	(162,727)	-	325,454
Total Capital Assets, Net	<u>\$ 575,593</u>	<u>\$ (172,060)</u>	<u>\$ -</u>	<u>410,509</u>

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 2022A short-term revenue bonds for \$3,195,000 for the fiscal year 2022 grant. Bond Payable activity for fiscal year 2023 on the short-term bond was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Bonds Payable	\$ -	\$ 3,195,000	\$ 3,195,000	\$ -

6. Non-Current Liabilities

Changes in non-current liabilities for the year ended June 30, 2023, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 105,398	\$ 64,335	\$ -	\$ 169,733	\$ 25,362

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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, 2023. 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, 2023, 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	10,884,790	126,210
	2021	11,100,000	10,122,721	977,279
	2022	7,008,000	146,655	6,861,345
	2022 – BIL - Base	17,992,000	13,265,775	4,726,225
	2022 – BIL - LSL	28,350,000	-	28,350,000
	2022 – BIL – EC	8,033,000	-	8,033,000
	TOTAL	\$ 307,701,287	\$ 258,627,228	\$ 49,074,059

* Lead Service Line Replacement
** Emerging Contaminants

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, 2023, 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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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. These fees are not included in the loan principal. It is calculated on a semi-annual basis and billed when loan principal and interest payments are due. The fee is applied to all loans in accordance with Nebraska Administrative Code (NAC), Title 131, Rules and Regulations for the Wastewater Treatment Facilities and Drinking Water Construction Assistance Program, 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 seven 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% Local Assistance and support for other state program (e.g., 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.
- 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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. Operating Expenses (Continued)

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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, 2023, employees contributed \$54,862, and the Department contributed \$85,585. 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.
- 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.

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

NOTES TO THE FINANCIAL STATEMENTS

(Concluded)

12. Contingencies and Commitments (Concluded)

- 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 90 days. If not reported after 90 days, the property is covered for \$5 million under the miscellaneous unnamed location coverage. There is a wind and hail limit on the real and personal property of \$76,250,000. 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 (*Government Auditing Standards*), 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, 2023, 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 16, 2024.

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 or significant deficiencies 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 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 Item

We also noted a certain additional item 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).

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.

Lincoln, Nebraska
April 16, 2024



Brad Ashley, CPA
Audit Manager



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2023.

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, 2023.

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.

Lincoln, Nebraska
April 16, 2024



Brad Ashley, CPA
Audit Manager