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

JULY 1, 2020, THROUGH JUNE 30, 2021

Issued on May 5, 2022

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

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BACKGROUND

The Nebraska Department of Environment and Energy (Department) – Clean Water State Revolving Fund Program (Program) was established pursuant to Title VI of the Federal Clean Water Act, as amended by the Water Quality Act of 1987. Created by 1988 Neb. Laws, LB 766, § 1, the Wastewater Treatment Facilities Construction Assistance Act is set out at Neb. Rev. Stat. § 81-15,147 et seq. (Reissue 2014, Cum. Supp. 2020). The Federal Water Quality Act and State statutes established the Program to provide loans, at reduced interest rates, to finance the construction of publicly and privately owned water pollution control facilities, non-point source pollution control projects, and estuary management plans.

Instead of making grants to communities that pay for a portion of the building of wastewater treatment facilities, the Program provides for low-interest loans to finance the entire cost of qualified projects. The Program provides a flexible financing source, which can be used for a variety of projects. Loans made by the Program must be repaid within the lesser of 30 years or the projected useful life of the project, and all repayments, including interest and principal, must be used for the purposes of the Program.

The Program was capitalized by the United States Environmental Protection Agency (EPA) by a series of annual grants starting in 1989. 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, 2021, the EPA had awarded $240 million in capitalization grants to the State. Of the $240 million awarded, approximately $20 million was funded by the American Recovery and Reinvestment Act (ARRA). The $220 million not funded by ARRA required the State to contribute approximately $44 million in matching funds. Since the inception of the Program, the State has appropriated $955,000 to meet the State's matching requirement. Additional matching funds have been obtained through the issuance of revenue bonds and Administrative Cash Funds.

The Program is administered by the Department. The Department's primary activities with regard to the Program include the making of loans for water pollution control facilities and the management and coordination of the Program. The Nebraska Environmental Quality Council approves the rules and regulations of the Department, 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 – Clean Water State Revolving Fund Program Executive Management

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

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COMMENT AND RECOMMENDATION

During our audit of the Nebraska Department of Environment and Energy (Department) – Clean 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. The following comment is required to be reported in accordance with *Government Auditing Standards* and is considered to be a material weakness.

Financial Statement Errors

The Department of Environment and Energy (Department) did not have adequate procedures to ensure the accuracy of its financial statements. During fiscal year 2021, the Department began using the financial statement functionality in the Loans and Grants Tracking System (LGTS) to create its financial statements. When provided to the Auditor of Public Accounts (APA), this included the financial statements and support for accrual entries performed but no other support for how the amounts were determined. Per discussion with the Department, balances from EnterpriseOne (E1), the State's accounting system, were entered into LGTS with the intent that the financial statements would be based on the data accumulated in E1.

To test the accuracy of the financial statements, the APA reviewed the support for the accrual entries and formatted data from E1 into financial statements using a template created by the Department and used in previous fiscal years. The APA then compared the E1 financial statements to the LGTS financial statements and noted that the financial statements submitted to the APA for the fiscal year ended June 30, 2021, were materially misstated, resulting in revisions to 27 of the 43 line items therein.

The table below summarizes the number of lines that were revised by financial statement, with revisions ranging from $90 to $9,265,573.

Financial Statement	# of Errors	Available Line Items	Error Rate	Material Errors
Statement of Net Position	11	13	85%	2
Statement of Revenues, Expenses, and Changes in Net Position	7	12	58%	1
Statement of Cash Flows	9	18	50%	4
Total	**27**	**43**	**63%**	**7**

Exhibits A through C herein illustrate, by financial statement line item, all of the fiscal year 2021 financial statement adjustments made by the Department. The amounts shown in the exhibits represent the change in the value from the original financial statements provided to the APA to the final issued financial statements. A positive number represents the amount the number increased; therefore, the value had been originally understated. A negative number represents the amount the number decreased; therefore, the value had been originally overstated.

During testing, the APA was able to identify the following errors that contributed to the variances:

- An automated clearing house (ACH) receipt for $79,278 was identified as having been miscoded to an expenditure account for government aid, rather than being coded to a Capital Contributions revenue account.

- An entry to complete the fiscal year 2020 short-term bond process was not completed until fiscal year 2021. This entry was not adequately included on the financial statements during the fiscal year 2020 audit, and a proposed adjustment was made during that audit. During the fiscal year 2021 audit, an entry appears not to have been completed to remove this entry from the financial statements.

- Loans Receivable was recorded to Non-Current Assets and was not adjusted to reflect the portion due within one year as Current Assets.

COMMENT AND RECOMMENDATION
(Continued)

- An entry for $8,444 of work completed on the LGTS project in July 2021 was correctly identified as an expense for work completed during fiscal year 2021 and accrued on the financial statements. However, this entry was added to expenses instead of capitalized to Software Development In-Progress.

Due to the lack of supporting documentation for how the LGTS financial statements were prepared, some variances could not be explained. The APA discussed the identified errors with the Department, and adjustments were made to correct them.

A similar finding was noted during the previous five 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 will have two plans to correct this issue. Plan A: The financial statements will be processed by the Accounting & Finance Manager (Clean Water) and an Accountant III (Drinking Water). The process will begin the first week of August. The fiscal team will have until October 31st to finish the statements, which includes a check of each other's work. If unsuccessful, then Plan B. Plan B: Outsource the financial statements to a professional accounting firm. The firm will be identified by the Accounting & Finance Manager by July 31st.

It should be noted this report is critical in nature, containing only our comment and recommendation 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 comment and recommendation contained herein. The formal response received has been incorporated into this 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.

COMMENT AND RECOMMENDATION
(Continued)

Exhibit A

ADJUSTMENTS TO THE SATEMENT OF NET POSITION
June 30, 2021

ASSETS	
CURRENT ASSETS:	
Cash in State Treasury	$ (253,173)
Due from Federal Government	107,170
Interest Receivable	-
Loans Receivable	9,265,573
TOTAL CURRENT ASSETS	9,119,570
NON-CURRENT ASSETS	
Loans Receivable	(9,265,573)
Capital Assets, Net	8,444
TOTAL NON-CURRENT ASSETS	(9,257,129)
TOTAL ASSETS	$ (137,559)
LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable & Accrued Liabilities	$ (3,282)
Due to Grant Recipients	-
Compensated Absences	(90)
Bonds Payable	(1,122,000)
TOTAL CURRENT LIABILITIES	(1,125,372)
NON-CURRENT LIABILITIES:	
Compensated Absences	4,526
TOTAL NON-CURRENT LIABILITIES	4,526
TOTAL LIABILITIES	(1,120,846)
NET Position	
Net Investment in Capital Assets	8,444
Unrestricted	974,843
TOTAL NET POSITION	983,287
TOTAL LIABILITIES AND NET POSITION	$ (137,559)

COMMENT AND RECOMMENDATION
(Continued)

Exhibit B

ADJUSTMENTS TO THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2021

OPERATING REVENUES:	
Loan Fees Administration	$ -
Interest on Loans	-
TOTAL OPERATING REVENUES	-
OPERATING EXPENSES:	
Administrative Costs from Fees	(47,157)
4% Administrative Costs From Grants	(77,997)
Small Town Grants	270,258
Project Planning Activities and Report Grants	20,000
Loan Forgiveness	-
TOTAL OPERATING EXPENSES	165,104
OPERATING INCOME	(165,104)
NONOPERATING REVENUE (EXPENSE):	
Capital Contributions - Federal Grants	(73,799)
Capital Contributions - Federal Grants - Capital Assets	54,642
Interest on Fund Balance - State Operating Investment Pool	-
Bond Revenue (Expense)	-
TOTAL NONOPERATING REVENUE (EXPENSE)	(19,157)
CHANGE IN NET POSITION	(184,261)
TOTAL NET POSITION, BEGINNING OF YEAR	(10,427)
TOTAL NET POSITION, END OF YEAR	$ 983,286

COMMENT AND RECOMMENDATION
(Concluded)

Exhibit C

ADJUSTMENTS TO THE STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	$ -
Payments for Administration	121,872
Payments for Small Town Grants	(270,258)
Payments for Project Planning Activities and Report Grants	(20,000)
Payments for Loan Forgiveness	-
Payments to Borrowers	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	(168,386)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received from the Environmental Protection Agency	(180,969)
Receipts from Bond Issue	(1,122,000)
Repayment of Bond	-
Bond Receipts (Payments)	-
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	(1,302,969)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Contributions	54,642
Purchase of Capital Assets	(8,443)
NET CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	46,199
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	-
Net Increase in Cash and Cash Equivalents	(253,174)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS, END OF YEAR	$ (253,174)

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating Income	$ (169,540)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	-
Increase/(Decrease) in Compensated Absences	4,436
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(3,282)
Increase/(Decrease) in Payables to Grant Recipients	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ (168,387)

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

INDEPENDENT AUDITOR'S REPORT

Nebraska Department of Environment and Energy
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Nebraska Department of Environment and Energy – Clean Water State Revolving Fund Program (Program) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities of the Program, as of June 30, 2021, 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.

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, 2021, 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.

Other Matter

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 13 be presented to supplement the basic financial statements. Such information, 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 21, 2022, 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 to solely 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.

Report on Regulatory Requirements

In accordance with the *U.S. Office of Management and Budget (OMB) Compliance Supplement*, we have also issued our report dated April 21, 2022, 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.

Mark Avery

Lincoln, Nebraska
April 21, 2022

Mark Avery, CPA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Environment and Energy (Department) – Clean Water State Revolving Fund Program's (Program) financial report presents a narrative overview and analysis of the financial activities of the Program for the fiscal year ended June 30, 2021. 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, 2021, the Ending Net Position of the Program increased by 2.6%. The increase in Net Position was largely impacted for three reasons. The first is due to the volume of Operating Revenues collected, $3,765,210, which is loan interest and fees with an additional $2,595,373 interest earned through the Operating Investment Pool on the fund balance. The second is the Program continued to receive Federal grants and drew down $4,028,629, which contributed on a FIFO basis in accordance with the request from the EPA. The third is the costs of administering the Program were maintained at a low level.

Changes in Current Liabilities

Dollars Due to Grant Recipients decreased by $98,904 in fiscal year 2021 over fiscal year 2020 because fiscal year 2020 had higher amounts for Small Town Grants.

Changes in Net Investment in Capital Assets

The fiscal year over year comparison represents an inception-to-date summary. In fiscal year 2020, the Program invested $39,252 in the Loan and Grant Tracking System (LGTS). In fiscal year 2021, an additional $101,582 was invested in LGTS software development.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Statement of Net Position

	2021	2020	% Change
Current Assets	$ 224,255,990	$ 121,335,663	84.8%
Non-current Assets	121,898,887	216,267,916	-43.6%
Total Assets	**346,154,877**	**337,603,579**	**2.5%**
Current Liabilities	256,833	378,362	-32.1%
Non-current Liabilities	27,821	52,040	-46.5%
Total Liabilities	**284,654**	**430,402**	**-33.9%**
Net Position:			
Net Investment in Capital Assets	474,513	372,931	27.2%
Unrestricted	345,395,710	336,800,246	2.6%
Total Net Position	**$ 345,870,233**	**$ 337,173,177**	**2.6%**

Changes in Net Position

	2021	2020	% Change
Loan Fees Administration	$ 1,239,470	$ 1,692,988	-26.8%
Interest on Loans	2,525,740	3,626,238	-30.3%
Total Operating Revenues	**3,765,210**	**5,319,226**	**-29.2%**
Administration	626,356	758,175	-17.4%
Grant Expense	398,890	531,212	-24.9%
Loan Forgiveness	665,024	544,633	22.1%
Total Operating Expenses	**1,690,270**	**1,834,020**	**-7.8%**
Operating Income	**2,074,940**	**3,485,206**	**-40.5%**
Federal Grants	4,028,629	8,013,306	-49.7%
Interest Revenue	2,595,373	2,078,766	24.9%
Bond Revenue (Expense)	(1,896)	2,487	-176.2%
Total Non-Operating Revenue (Expense)	**6,622,106**	**10,094,559**	**-34.4%**
Change in Net Position	**8,697,046**	**13,579,765**	**-36.0%**
Beginning Net Position July 1	**337,173,177**	**323,593,412**	**4.2%**
Ending Net Position June 30	**$ 345,870,223**	**$ 337,173,177**	**2.6%**

Loan forgiveness is awarded to communities who meet specific guidelines for need. It is not paid to a community until that community has allowable expenditures to report and, therefore, has a construction project that has commenced.

Federal funds disbursed will vary each year depending on the size of each draw, the timing of each draw, the number of communities applying for loans, and the number of loans successfully processed. 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 small rural makeup of the State remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to draw the amount of user fees needed to fund capital infrastructure projects to address wastewater issues.

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 $500,000, which was repaid and retired within the same fiscal year.

LINKED DEPOSIT PROGRAM

The Department continues the implementation of a linked deposit program for nonpoint source pollution control projects through revisions of Title 131 of the Nebraska Administrative Code. The Clean Water State Revolving Fund will partner with eligible lending institutions, which will disburse loans to borrowers for these projects through a linked deposit loan program. Under this program, the State agrees to place funds into low-yielding deposits, and the lending institution agrees to provide loans to borrowers at similarly reduced interest rate below common market rates. Title 131 revisions were presented to the Environmental Quality Council in November 2015 and approved. With those revisions, marketing and communication of the program has begun.

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) managers and 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, engineering review and milestone tracking, inspections, contacts, 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. 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.

LGTS has built-in role based security that requires users to log in each time they open the program. This security system is based on defined roles that each user is playing in the program. Security roles limit users to performing certain functions.

Historical data is extracted from spreadsheets or other data systems to load LGTS with data, test the validity of the data, and ensure that LGTS can be used effectively. This task is handled by a combination of staff efforts to assemble existing data sources and outside help to ensure that the data is used properly. This process usually yields a dual benefit of having a system with clean data and provides a quality assurance check of the many transactions that have occurred years ago and often by a number of staff members.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

Nebraska's State Revolving Fund programs have begun implementation of the LGTS system. During fiscal year 2014, planning of the implementation phases, business rules, and hardware/software installations occurred. During fiscal years 2015 through 2020, the system was used concurrently with existing systems to create a basis for reliability and consistency. Once dependable, reconciled results were established, the existing internal system was discontinued, and LGTS became the sole system for use within the SRF program alongside the State Accounting system.

Contract costs for the purchase and implementation of the LGTS system previously had been handled through the existing Northbridge contract with the Federal Environmental Protection Agency (EPA) procurement. Therefore, expenditures were withheld as an "in-kind" deduction to the total annual grant, which was awarded to the Program each year. The Federal EPA staff negotiated, monitored, and managed the Northbridge contract for LGTS. The EPA program contract was cancelled and the final expenditures were in October 2019. Beginning in May 2020, the Department funds the program enhancements by paying Northbridge invoices directly.

The Department is capitalizing the costs that it pays directly to Northbridge, as well as the cost of staff time utilized for implementation.

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
CLEAN WATER STATE REVOLVING FUND PROGRAM
STATMENT OF NET POSITION
June 30, 2021

		Enterprise Fund
ASSETS		
CURRENT ASSETS:		
Cash in State Treasury (Note 2)	$	214,623,133
Due from Federal Government		107,170
Interest Receivable		260,114
Loans Receivable (Note 3)		9,265,573
TOTAL CURRENT ASSETS		224,255,990
NON-CURRENT ASSETS		
Loans Receivable (Note 3)		121,424,374
Capital Assets, Net (Note 4)		474,513
TOTAL NON-CURRENT ASSETS		121,898,887
TOTAL ASSETS	$	346,154,877
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable & Accrued Liabilities	$	40,010
Due to Grant Recipients (Note 1)		213,384
Compensated Absences (Note 6)		3,439
TOTAL CURRENT LIABILITIES		256,833
NON-CURRENT LIABILITIES:		
Compensated Absences (Note 6)		27,821
TOTAL NON-CURRENT LIABILITIES		27,821
TOTAL LIABILITIES		284,654
NET Position		
Net Investment in Capital Assets		474,513
Unrestricted		345,395,710
TOTAL NET POSITION		345,870,223
TOTAL LIABILITIES AND NET POSITION	$	346,154,877

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2021

		Enterprise Fund
OPERATING REVENUES:		
Loan Fees Administration (Note 8)	$	1,239,470
Interest on Loans		2,525,740
TOTAL OPERATING REVENUES		3,765,210
OPERATING EXPENSES:		
Administrative Costs from Fees (Note 10)		181,558
4% Administrative Costs From Grants (Note 10)		444,798
Small Town Grants (Note 10)		378,890
Project Planning Activities and Report Grants (Note 10)		20,000
Loan Forgiveness (Note 10)		665,024
TOTAL OPERATING EXPENSES		1,690,270
OPERATING INCOME		2,074,940
NONOPERATING REVENUE (EXPENSE):		
Capital Contributions - Federal Grants (Note 7)		3,979,832
Capital Contributions - Federal Grants - Capital Assets		48,797
Interest on Fund Balance - State Operating Investment Pool (Note 9)		2,595,373
Bond Revenue (Expense)		(1,896)
TOTAL NONOPERATING REVENUE (EXPENSE)		6,622,106
CHANGE IN NET POSITION		8,697,046
TOTAL NET POSITION, BEGINNING OF YEAR		337,173,177
TOTAL NET POSITION, END OF YEAR	$	345,870,223

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

NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
CLEAN WATER STATE REVOLVING FUND PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	$ 115,906,523
Payments for Administration	(673,200)
Payments for Small Town Grants	(488,723)
Payments for Project Planning Activities and Report Grants	(20,000)
Payments for Loan Forgiveness	(654,095)
Payments to Borrowers	(12,583,697)
NET CASH FLOWS FROM OPERATING ACTIVITIES	101,486,808
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Grants Received from the Environmental Protection Agency	3,896,326
Receipts from Bond Issue	500,000
Repayment of Bond	(500,000)
Bond Receipts (Payments)	(1,896)
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	3,894,430
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Contributions	48,797
Purchase of Capital Assets	(101,582)
NET CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	(52,785)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	2,486,249
NET CASH FLOWS FROM INVESTING ACTIVITIES	2,486,249
Net Increase in Cash and Cash Equivalents	107,814,702
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	106,808,431
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 214,623,133
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating Income	$ 2,074,940
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
(Increase)/Decrease in Loans Receivable	99,557,616
Increase/(Decrease) in Compensated Absences	(27,212)
Increase/(Decrease) in Accounts Payable & Accrued Liabilities	(19,632)
Increase/(Decrease) in Payables to Grant Receipients	(98,904)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 101,486,808

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Environment and Energy (Department) – Clean Water State Revolving Fund Program (Program) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS).

B. Reporting Entity

The Program is established under and governed by the Clean Water Act of the Federal Government and by laws of the State of Nebraska. The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Program's management has also considered all potential component units 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 funds, as identified in the Wastewater Treatment Facilities Construction Assistance Act:

1. Summary of Significant Accounting Policies (Continued)

- Clean Water Facilities Funds – Federal Funds 48412 and 48413; and Repaid Principal and Bond Funds 68471, 68472, and 68473.

- Administration Funds – Cash Funds 28460 and 28461.

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 the revenues earned, expenses incurred, and/or net income is necessary to demonstrate the success of the Program and to assure the EPA the Program will be available in perpetuity, as intended.

This fund classification differs from the classification used in the State of Nebraska's 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. 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. These short-term investments have original maturities (remaining time to maturity at acquisition) of three months or less. These investments are stated at cost, which at June 30, 2021, 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 0.5% to 4.0%, and the terms on outstanding loans range from 9.5 to 30.5 years.

The Program loans are funded from Federal capitalization grants, State match funding, and the Clean 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 Clean Water State Revolving Funds. The Clean Water State Revolving Fund is financed through principal repayments plus interest earnings 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, 2021, which is collectible in fiscal year 2022. Loans receivable that were paid in full, prior to their due date, as of August 31, 2021, were included in the current loans receivable balance as opposed to the long-term receivable balances.

No provisions were made for uncollectible accounts, as management believed all loans would be repaid according to the loan terms.

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 expenditures 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 240 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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

The Program awards Project Planning Activities and Report Grants, and Small Town Grants to communities with populations below 10,000 demonstrating serious financial hardship. Municipalities with wastewater treatment facility projects that have made application for grants and whose needs are identified on the Project Priority Planning List on the annual Intended Use Plan and who also meet the population and financial hardship guidelines are given priority for receiving grants.

The Program may choose to provide additional subsidization for municipalities in the form of loan forgiveness, up to a maximum of $150,000 per project. The Program's power and authority to distribute the additional subsidization is an existing authority under the State Environmental Protection Act at Neb. Rev. Stat. § 81-1504(4) (Cum. Supp. 2020) and the Wastewater Treatment Facilities Construction Assistance Act at Neb. Rev. Stat. § 81-15,150 (Cum. Supp. 2020). To qualify for loan forgiveness, a community must be considered disadvantaged in regards to meeting affordability criteria, and have a population equal to or fewer than 10,000 people. 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 Project Planning Activities and Report Grants, Small Town 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 have been 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 expenses, small town grants, project planning activities and report grants, and loan forgiveness.

K. Capital Assets

The Program has only one capital asset, the Loans and Grants Tracking System (LGTS) software, and it is recorded at cost. The Department began the development phase of the LGTS software during the fiscal year ended June 30, 2014, and is anticipating this phase to be completed during the fiscal year ended June 30, 2022. The LGTS software is considered an intangible capital asset, 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 life of greater than one year. The LGTS software has 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 will be computed using the straight-line method over the estimated useful life of the asset.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. 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, 2021. 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 2021. Amounts are allocated on a monthly basis based on average balances of all invested funds.

3. Loans Receivable

As of June 30, 2021, the Program had 175 outstanding community loans that totaled $130,689,947. The outstanding balances of the 10 communities with the largest loan balances, which represent 65.4% of the total loans, were as follows:

Community	Outstanding Balance
York	$ 21,036,233
Lincoln	16,121,754
South Sioux City	10,580,878
Kearney	9,869,304
Gretna	6,695,782
Dakota City	5,886,178
Wayne	4,325,805
Plattsmouth	4,085,770
Broken Bow	3,666,188
Sidney	3,221,507
TOTAL	**$ 85,489,399**

4. Capital Assets

The Program's capital assets activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Software Development In-Progress				
Loans and Grants Tracking System (LGTS)	$ 372,931	$ 101,582	$ -	$ 474,513

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Bonds Payable (Concluded)

The EPA requires the Program to provide 20% matching funds for each capitalization grant under § 602(b)(2) of the Federal Clean Water Act. Interest revenue from Program loans is pledged to pay off the bonds. During the fiscal year, the Program utilized $1,122,000 of administrative cash funds and issued and retired Series 2020B short-term revenue bonds to meet the requirement of matching each capitalization grant with 20% of non-Federal funds. Bonds Payable activity for fiscal year 2021 on the short-term bond was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Bonds Payable	$ -	$ 500,000	$ 500,000	$ -

6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2021, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 52,040	$ -	$ 24,219	$ 27,821	$ 3,439

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 capitalization grants awarded and drawn, as well as the remaining balance as of June 30, 2021. 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, 2021, and may have been drawn over multiple years.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Capital Contributions (Concluded)

Federal Fiscal Year Available	Grant Amount	Amount Drawn	Balance
1989	$ 4,773,100	$ 4,773,100	$ -
1990	4,964,560	4,964,560	-
1991	10,821,580	10,821,580	-
1992	9,938,500	9,938,500	-
1993	9,830,300	9,830,300	-
1994	6,061,600	6,061,600	-
1995	6,263,600	6,263,600	-
1996	10,319,661	10,319,661	-
1997	3,119,900	3,119,900	-
1998	7,019,996	7,019,996	-
1999	6,857,600	6,857,600	-
2000	6,834,000	6,834,000	-
2001	6,797,400	6,797,400	-
2002	6,855,000	6,855,000	-
2003	7,069,900	7,069,900	-
2004	6,747,100	6,747,100	-
2005	5,467,300	5,467,300	-
2006	4,424,300	4,424,300	-
2007	5,429,600	5,429,600	-
2008	3,415,700	3,415,700	-
2009 - ARRA	20,045,000	20,045,000	-
2009	3,415,700	3,415,700	-
2010	10,422,000	10,422,000	-
2011	7,529,000	7,529,000	-
2012	7,075,582	7,075,582	-
2013	6,663,899	6,663,899	-
2014	7,144,000	7,144,000	-
2015	7,080,590	7,080,590	-
2016	6,771,276	6,771,276	-
2017	6,750,000	6,750,000	-
2018	8,083,736	8,083,736	-
2019	8,109,000	8,109,000	-
2020	8,110,000	3,571,966	4,538,034
TOTAL	**$ 240,210,480**	**$ 235,672,446**	**$ 4,538,034**

Not included in the above grant totals are the amounts set aside as in-kind contributions for the Loans and Grant Tracking System (LGTS) software development. The 2012, 2013, 2016, and 2018 grants had $107,476, $153,043, $31,724, and $121,739 set aside, respectively, as in-kind amounts for the use by the EPA for the development of the new LGTS software.

The amount of in-kind contributions utilized for the LGTS software during the fiscal year ending June 30, 2021, was $0. The total amount utilized for LGTS as of June 30, 2021, was $325,682. Additional in-kind contributions were received and capitalized for the Drinking Water State Revolving Fund Program, which also utilizes the LGTS software.

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 calculated on a semi-annual basis and billed when loan principal and interest payments are due. These fees are not included in the loan principal. The Director of the Program may waive this fee during construction, except on projects that only receive interim financing during construction. The fee is applied to all loans in accordance with Title 131 Nebraska Administrative Code (NAC) Chapter 2 and the loan agreements.

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 five 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 and other eligible water quality related purposes. The fee on a loan made from leveraged bond proceeds may be set to reflect the cost of issuing bonds and management of the leveraged loan portfolio.

4% Administrative Costs from Grants

The maximum amount allowable for administering and managing the Program is 4% of the cumulative amount of capitalization grant awards received. When the administrative expenses of the Program exceed 4%, the excess must be paid from sources outside of Program grant awards.

Small Town Grants

Per Neb. Rev. Stat. § 81-15,151(2) (Cum. Supp. 2020) and Neb. Rev. Stat. § 81-15,153(11) (Cum. Supp. 2020), Small Town Grants are made available to communities that have populations of 10,000 inhabitants or less and demonstrate serious financial hardship. The maximum amount to be awarded in Small Town Grants is set at 50% of the revenue from administrative fees collected in the prior fiscal year. In the 2020 Intended Use Plan (IUP), the Department set the upper limit of grant to each community at $250,000 per project, concurrent with a Program loan. Projects are prioritized based on the type of project and Median Household Income of the community.

Project Planning Activities and Report Grants

Project Planning Activities and Report Grants may be provided to municipalities with populations of 10,000 or fewer inhabitants that demonstrate serious financial hardship. Municipalities with wastewater treatment facility project needs that are identified on the project priority list, have not received a grant in the past five years, and also qualify for a Small Town Grant can receive up to 90% of project costs up to a maximum of $20,000 per project. These grants are funded through the Administrative Cash Fund.

10. Operating Expenses (Concluded)

Loan Forgiveness

The State may choose to provide additional subsidization in the form of loan forgiveness up to a maximum of $150,000 per project to qualifying disadvantaged communities that meet the affordability criteria found in the 2021 IUP. Awarding loan forgiveness is dependent on the availability of funding from Federal capitalization grants and the total amount of funds the Program decides to allocate for forgiveness from each grant. The Program will reserve up to $811,000 (approximately 10% of the Capitalization Grant) for forgiveness to be used for additional subsidization. The Program's authority to distribute the additional subsidization is an existing authority under the State Environmental Protection Act at Neb. Rev. Stat. § 81-1504(4) (Cum. Supp. 2020) and the Wastewater Treatment Facilities Construction Assistance Act at Neb. Rev. Stat. § 81-15,150 (Cum. Supp. 2020). Together, these statutes allow the Program to accept and expend Federal grants for designated projects. Loan forgiveness discharges the community from repaying that portion of the principal amount of its loan under the terms and conditions of the loan contract.

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.

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 shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit – Upon attainment of age 55, regardless of service, the retirement allowance 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.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

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

For the fiscal year ended June 30, 2021, employees contributed $13,575, and the Department contributed $21,177. 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. 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.

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 Worker's 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
CLEAN WATER STATE REVOLVING FUND PROGRAM

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Nebraska Department of Environment and Energy
Lincoln, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Nebraska Department of Environment and Energy – Clean Water State Revolving Fund Program (Program), as of and for the year ended June 30, 2021, 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 21, 2022.

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) to determine the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Comment Section of this report, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency described in the Comment Section of this report to be a material weakness: Comment Number 1 (Financial Statement Errors).

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Nebraska Department of Environment and Energy Response to the Finding
The Program's response to the finding identified in our audit is described in the Comment Section of the report. The Program's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, the Program declined to respond.

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 result of that testing, not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mark Avery

Lincoln, Nebraska
April 21, 2022

Mark Avery, CPA
Assistant Deputy Auditor

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NEBRASKA DEPARTMENT OF ENVIRONMENT AND ENERGY
CLEAN 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 – CLEAN 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 – Clean Water State Revolving Fund Program

We have audited the Nebraska Department of Environment and Energy – Clean 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, 2021.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Program.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the Program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Program. However, our audit does not provide a legal determination of the Program's compliance.

Opinion on the Nebraska Department of Environment and Energy – Clean Water State Revolving Fund Program
In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Program's internal control over compliance with the types of requirements that could have a direct and material effect on the Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

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

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	Mark Avery, CPA
April 21, 2022	Assistant Deputy Auditor