

STATE OF DELAWARE
DELAWARE WATER POLLUTION CONTROL
REVOLVING LOAN FUND

FINANCIAL STATEMENTS

JUNE 30, 2009

STATE OF DELAWARE
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REVOLVING LOAN FUND
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Independent Auditors' Report (Cont'd.)

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2009, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McBride, Shoga & Co

Wilmington, Delaware
September 29, 2009

STATE OF DELAWARE
DELAWARE WATER POLLUTION CONTROL
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

(\$000's omitted)

As management of the Delaware Water Pollution Control Revolving Loan Fund ("Fund"), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2009. All amounts unless otherwise indicated are expressed in thousands of dollars.

This section of the Fund's annual financial report presents management's discussion and analysis of the financial performance during the fiscal year. Please read it in conjunction with the Fund's financial statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of two components: fund financial statements and notes to the financial statements.

Financial Highlights

In FY 2009 the Delaware Department of Natural Resources and Environmental Control ("DNREC") was awarded its fourteenth and fifteenth capitalization grant from the U.S. Environmental Protection Agency ("EPA"). As of June 30, 2009, DNREC has received capitalization grants in an aggregate amount of \$151,528,034 since the inception of the Fund. As of June 30, 2009, the State of Delaware has provided state match funds of \$26,462,282 since the inception of the Fund. The combined total capitalization amount has been \$177,990,316 since the inception of the Fund.

The Fund realized operating income of \$2,163,659 in fiscal year 2009, which represents an increase of 12% from fiscal year 2008. Grants drawn down from Federal and State governments totaled \$6,220,636 in fiscal year 2009, a 60.1% decrease from fiscal year 2008. The decrease in grants drawn down was due to the reduction of the FY 2009 Grant Award as compared to the FY 2007 and FY 2008 Awards. The American Recovery and Reinvestment Act (ARRA) Grant was awarded in June of FY 2009 and is restricted to projects starting construction in FY 2010.

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(\$000's omitted)

Financial Highlights (continued)

Operating revenues (including interest income on loans) increased \$199,155 or 7% from the previous year.

Loans disbursements made totaled \$7,824,079 during the fiscal year, which represents a decrease of \$4,597,976 or 37% from the previous fiscal year. The decrease in loan disbursements is primarily a result of several municipal loans being disbursed during fiscal year 2008, but fewer of them in 2009.

Loan collections (principal) totaled \$7,992,228 during the fiscal year. This represents an increase of \$2,076,827 or 35% from the previous year. Principal loan collections will continue to grow as the number of loans outstanding increases.

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(\$000's omitted)

Statement of Net Assets

The following condensed statement of net assets (thousands of dollars) shows a summary of changes in dollars and percentages between fiscal years:

	<u>2009</u>	<u>2008</u>	Increase/ (Decrease) Amount	Increase/ (Decrease) %
ASSETS				
CURRENT ASSETS				
Cash	\$ 55,514	\$ 45,796	\$ 9,718	21%
Grants receivable	122	4,073	(3,951)	(97)%
Administrative fees receivable	205	234	(29)	(13)%
Intercompany receivable	1,052	1,052	0	0%
Interest receivable	188	246	(58)	(23)%
Loans receivable - current	12,026	8,752	3,274	37%
	<u>69,107</u>	<u>60,153</u>	<u>8,954</u>	<u>15%</u>
NONCURRENT ASSETS				
Loans receivable - less current portion	<u>114,157</u>	<u>117,616</u>	<u>(3,457)</u>	<u>(3)%</u>
TOTAL ASSETS	<u><u>\$ 183,264</u></u>	<u><u>\$ 177,769</u></u>	<u><u>\$ 5,495</u></u>	<u><u>3%</u></u>
LIABILITIES AND RETAINED EARNINGS				
CURRENT LIABILITIES				
Vouchers payable	\$ 242	\$ 4,074	\$ (3,832)	(94)%
Intercompany payable	<u>1,052</u>	<u>1,052</u>	<u>0</u>	<u>0%</u>
TOTAL LIABILITIES	<u>1,294</u>	<u>5,126</u>	<u>(3,832)</u>	<u>(75)%</u>
NET ASSETS	<u>181,970</u>	<u>172,643</u>	<u>9,327</u>	<u>5%</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 183,264</u></u>	<u><u>\$ 177,769</u></u>	<u><u>\$ 5,495</u></u>	<u><u>3%</u></u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2008

(\$000's omitted)

Statement of Net Assets (continued)

The combined total net assets of the Fund for the year ending June 30, 2009 increased by 3%.

Cash increased \$9,718,078 or 21% to \$55,514,211 primarily because fewer funds were disbursed while payments increased.

Total liabilities' decrease of \$3,831,062 was due to the decrease in vouchers payable at the end of the fiscal year. Vouchers payables represent the amount of disbursements/payments which were requested/earned in fiscal year 2009 but not paid until the following fiscal year. The decrease is due to timing and does not reflect any long term trend.

Statement of Revenue, Expenses and Changes in Fund Net Assets

The following schedule summarizes the statement of revenue, expenses and changes in net assets (thousands of dollars) of the Fund for the fiscal years ended June 30, 2009 and 2008:

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 JUNE 30, 2009

(\$000's omitted)

	2009	2008	Increase/ (Decrease) Amount	Increase/ (Decrease) %
OPERATING REVENUES				
Interest income on loans	\$ 1,306	\$ 1,152	\$ 154	13 %
Administrative fee revenue	1,680	1,634	46	3 %
Application fees	1	2	1	50 %
Other income	1	1	0	0 %
	<u>2,988</u>	<u>2,789</u>	<u>199</u>	<u>7 %</u>
OPERATING EXPENSES				
Reimbursable expenditures under				
operating grants				
Personnel costs	580	558	22	4 %
Travel	4	6	(2)	(33) %
Contractual services	193	240	(47)	(20) %
Supplies	41	34	7	21 %
Other expenses	6	11	(5)	(45) %
Loans made	7,824	12,422	(4,598)	(37) %
	<u>8,648</u>	<u>13,271</u>	<u>(4,623)</u>	<u>(35) %</u>
Adjustments to reconcile				
reimbursable expenditures				
to operating expenses				
Less: Loans made	<u>(7,824)</u>	<u>(12,422)</u>	<u>4,598</u>	<u>(37) %</u>
TOTAL OPERATING EXPENSES	<u>824</u>	<u>849</u>	<u>(25)</u>	<u>3 %</u>
OPERATING INCOME	2,164	1,940	224	12 %
NONOPERATING REVENUE				
Interest income on deposits	943	1,699	(756)	(45) %
Contributions - EPA	5,184	13,121	(7,937)	(60) %
Contributions - State of Delaware	1,036	2,484	(1,448)	(58) %
	<u>7,163</u>	<u>17,304</u>	<u>(10,141)</u>	<u>(59) %</u>
CHANGE IN NET ASSETS	9,327	19,244	<u>\$ (9,917)</u>	<u>(52) %</u>
BEGINNING NET ASSETS	<u>172,643</u>	<u>153,399</u>		
ENDING NET ASSETS	<u>\$ 181,970</u>	<u>\$ 172,643</u>		

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JUNE 30, 2009

(\$000's omitted)

Statement of Revenue, Expenses and Changes in Fund Net Assets (continued)

The Fund reported operating revenues of \$2,987,753, which represents an increase of \$199,155 or 7%. This is primarily a result of increased loan interest and administrative fees, which are monies received as part of loan repayments. Borrowers are required to pay interest and administrative fees on funds disbursed during construction as well as throughout the life of the loan, consequently, as the amount of loans outstanding increases for the Fund, income from interest and administrative fees will also increase. The Fund reported an overall increase of \$9,327,569 in total net assets for the fiscal year ended June 30, 2009.

Federal grant revenue decreased by \$7,936,907 or 60%, and the State match decreased by \$1,447,990, as a result of the increased amount of loan disbursements made in fiscal year 2007.

Total operating expenses decreased \$24,841 or 3%, mostly as a result decreased loan disbursements.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances to the users of such data. Requests for additional copies of this report, questions concerning any of the information in this report, and requests for additional financial information should be addressed to:

Frank Paquette
State of Delaware
Department of Natural Resources & Environmental Control
Division of Water Resources
5 E. Reed Street, Suite 200
Dover, DE 19901

STATE OF DELAWARE
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Delaware Water Pollution Control Revolving Loan Fund (“Fund” or “SRF”) is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

General Background

The Fund was created by the 1990 session of the Delaware General Assembly and received its first state appropriation on July 1, 1990. The Fund's purpose is to make below-market interest rate loans to local governments, individuals, and other qualifying applicants under the Environmental Protection Agency's (“EPA”) Capitalization Grants for State Revolving Funds federal assistance program. The Fund's enabling legislation empowers the Department of Natural Resources and Environmental Control (“DNREC”) to administer the Fund.

Basis of Accounting

The Fund accounts for its operations as a proprietary enterprise fund under governmental accounting standards. Accordingly, the economic resource measurement focus and the accrual basis of accounting is followed and commercial accounting principles are applied. The accrual basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable without regard to the receipt or payment of cash.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of Accounting (cont'd.)

The Fund is a special purpose government proprietary fund engaged only in business-type activities. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, the Fund needs only to present the financial statements required for proprietary funds, the required supplemental information and Management's Discussion and Analysis.

Type of Entity and Division of Funds

The Fund's activities are accounted for as a distinct operating unit and a Proprietary Fund within DNREC's Division of Water Resources. Accordingly, the financial statements of the Fund are intended to present the financial position, results of operations and cash flows of proprietary fund types of only that portion of the funds of the State of Delaware that are attributable to the transactions of the Fund.

The Fund is divided into three sub-funds:

- The Federal Administrative Fund, which accounts for program-related administrative activities;
- The Capital Reserve Loan Fund, which accounts for capital lending and repayment activities; and
- The Non Federal Administrative Fund, which accounts for monies which the State of Delaware ("State") has been authorized, by the EPA, to allocate from the SRF program for the State's use. The use of these funds are governed by EPA Rules and Regulations 40 CRF Part 35 Guidance on Fees Charged by State to Recipients of Clean Water State Revolving Fund Program Assistance.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Adoption of GASB Statement 20

The Fund has adopted the provision of GASB Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", which provides for the consistent application or nonapplication to proprietary and nonexpendable trust funds of pronouncements of the Financial Accounting Standards Board ("FASB"), issued after November 30, 1989. Accordingly, the Fund has elected not to adopt FASB pronouncements issued after November 30, 1989, unless GASB specifically adopts such pronouncements.

Recognition of Revenues

Federal assistance provided by the Capitalization Grants for the SRF program is earned when qualified expenditures are incurred by the borrowers and the Fund. Matching funds provided by the State are considered earned by the same criteria. Amounts earned in excess of grant monies received from the EPA and the State are recorded as grants receivable, whereas a deficiency of such amounts is considered deferred grant revenue.

To permit comparability to grant revenues earned and fiscal budgets, expenditures reimbursable under the Fund's program guidelines are listed separately by object category and subtotaled in the statement of revenues, expenses and changes in net assets.

Operating revenues include those that result from the Fund's lending activities. Non-operating revenues include those from non-capital financing and investing activities.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents as reported on the statement of net assets are held by the State Treasurer's Office. All cash deposited with the State Treasurer by State agencies is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash including the cash float in short-term securities and other investments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2 CASH

Cash: "Cash" as reported on the statement of net assets represents the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware ("Treasurer"). All cash is deposited with the Treasurer by state agencies and maintained by the Treasurer in various pooled funds. The Treasurer invests the deposited cash including cash float in short-term securities and other investments. However, the Fund may deposit or withdraw cash at any time without prior notice or penalty. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average daily cash balance. The classification of pooled cash of the Fund is not determinable at the entity level. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

The Cash Management Policy Board: The State of Delaware's ("State") policy for the investment of State Funds is the responsibility of the Cash Management Policy Board (the "Board"). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to the investment of all money belonging to the State except money in any State pension fund and money held under the State deferred compensation program.

Investment Guidelines and Management: The investment guidelines adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

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CASH (Cont'd.)

Collateralization Requirements: All State funds are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc.'s Bank Watch Service. The Board has also determined that State's demand deposits need not be collateralized provided that any bank that holds these funds has for the last two years, a return on average assets of 5% or greater and an average equity - capital ratio of at least 1:20.

If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

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CASH (Cont'd.)

The cash account in the Federal Administrative Fund represents grant funds drawn to pay administrative expenses of the fund. The grant agreement permits an amount up to 4% of grant revenues over the life of the program for these administrative expenses.

The cash account in the Capital Reserve Loan Fund represents all principal and interest received from Fund loans. These dollars are earmarked for future loans in accordance with applicable federal regulations.

Cash from administrative fees on municipal loans is recorded in the Non-Federal Administrative Fund, and is then available to the State for use at its discretion.

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NOTE 3 LOANS RECEIVABLE

The loans receivable account is made up of the following major categories:

	<u>2009</u>	<u>2008</u>
Municipal		
• Sussex County Council	\$62,613,043	\$65,330,129
• City of Wilmington	8,793,674	9,813,593
• City of Seaford	5,552,079	4,806,840
• Kent County	2,646,450	2,888,427
• City of Milford	1,216,154	1,291,634
• Town of Selbyville	2,773,941	2,907,284
• Town of Laurel	4,068,915	4,308,677
• City of Dover	477,268	512,072
• Camden Wyoming Sewer & Water Authority	248,207	264,527
• Town of Milton	-	416,727
• Town of Millsboro	7,723,899	4,119,145
• Town of Bridgeville	3,016,150	3,288,927
• City of Lewes	12,415,302	11,994,664
• Rehoboth Bay Conservancy	2,168,758	2,265,310
• Town of Georgetown	4,600,271	4,802,402
• City of Harrington	208,449	88,402
• North Millville	4,736,360	4,199,410
• Town of Delmar	122,400	-
Septic Rehabilitation Program	1,226,960	1,301,374
Agriculture Non-Point Source Loan Program	1,315,291	1,439,430
Dairy Loan Program	159,745	218,068
Underground Storage Tank Program	<u>100,248</u>	<u>109,905</u>
Total	<u>\$126,183,564</u>	<u>\$126,366,947</u>
Current portion	\$ 12,026,294	\$ 8,752,325
Long-term portion	<u>114,157,270</u>	<u>117,614,622</u>
Total	<u>\$ 126,183,564</u>	<u>\$126,366,947</u>

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LOANS RECEIVABLE (Cont'd.)

Interest charged on these loans ranges from 1.5% to 6.0% for both 2009 and 2008. Loan maturities vary, based on individual agreements. General Obligation and Municipal Revenue bonds are collateral for municipal loans; business assets and real estate are collateral for other loans.

There is no allowance for doubtful loans at June 30, 2009 and 2008 as all loans are secured and will eventually be collected. There were no material delinquent loan balances and no loan defaults for 2009 and 2008.

NOTE 4 SIGNIFICANT SOURCE OF REVENUE - STATE REVOLVING LOAN FUND GRANT

The Fund currently derives a significant portion of its revenue from EPA State Revolving Fund Capitalization Grant awards and mandatory state matching funds. The total funds awarded through a series of agreements during the federal capitalization period (October 1, 1990 through June 30, 2009) were \$177,990,316 which includes the federal portion of \$151,528,034, or five-sixths, and the state matching portion of \$26,462,282 or one-sixth.

According to Federal program guidelines, the Fund may spend up to four percent (4%) of the federal awards on administrative expenses. As previously described in Note 1, a separate Administrative Fund is used to account for such costs and related revenues.

The table below summarizes funding for the Fund over the capitalization period:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Awards made through June 30, 2009	\$ 151,528,034	\$ 26,462,282	\$ 177,990,316
Awards expended through June 30, 2009	\$ 130,696,524	\$ 25,264,972	\$ 155,961,496

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NOTE 5 PENSION PLAN

Employees of the Fund are considered employees of the State of Delaware (“State”) and are covered under The State Employees’ Pension Plan. Total pension cost of \$53,844 for 2009 and \$74,017 for 2008 is included in the financial statements as personnel costs. Certain significant plan provisions follow:

Detailed information regarding this plan is available in the Delaware Code and the Rules and Regulations of the Board of Pension Trustees.

Plan Description and Eligibility: The State Employees’ Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997 plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service. In lieu of disability pension benefits, over 90% of the members of the plan opted into a disability insurance program offered by the State, effective January 1, 2006.

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PENSION PLAN (Cont'd.)

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions:

- Employer – Determined by Board of Pension Trustees.
- Employee - 3 % of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

The Delaware Public Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Operating Lease

Beginning July 1, 1997, DNREC entered into a lease for office space, on behalf of the Fund, of which the Fund pays 75%. The three-year operating lease was effective from July 1, 1997 through June 30, 2000, but has been extended since then. Most recently, the lease was renewed for a one-year term expiring January 31, 2006, and currently continues on a month-to-month basis.

Rent expense, which is included in the financial statements as contractual services, was \$41,462 in 2009 and \$43,743 in 2008.

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COMMITMENTS AND CONTINGENCIES (Cont'd.)

Loans

The Fund has met its prior binding commitments (equal to at least one hundred twenty percent (120%) of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2009, there was a binding commitment of \$15,000,000.

Cost Reimbursement Contracts

The Fund derives all of its non-operating revenue from EPA Capitalization Grants for State Revolving Fund program and mandatory state matching funds which are contracts based on the reimbursement of allowable costs related to the program. Costs are subject to review by the EPA. Any adjustments arising from disallowed costs are recorded in the Fund's financial statements.

NOTE 7 RISK MANAGEMENT

The Fund is insured under the State of Delaware's insurance plans. The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

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RISK MANAGEMENT (Cont'd.)

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2009, there were no outstanding or pending claims against the Fund.

NOTE 8 PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

During the year ended June 30, 2007, the Town of Laurel received a disbursement for \$594,280. Only \$103,664 was a loan disbursement from the Revolving Loan Fund, the remainder was to come from the WWMA Grant in another Fund. However, the entire amount was recorded as a disbursement from the Revolving Loan Fund's cash account in the State's accounting system (DMFS). During the year ended June 30, 2007, the Fund's internal books (Peachtree) were adjusted to agree to DFMS's cash accounts, causing cash at the end of the year to be understated by \$490,610. Due to the volume of entries needed to adjust the cash accounts during the 2007 audit, this error was not detected, which led revenue to be understated by \$490,610.

During an extensive review of loan documentation and cash accounts during the year ended June 30, 2009, this error was detected. The 2008 balances have been adjusted to reflect the correction. The effect of this adjustment was to increase Cash in the Capital Reserve Loan Fund by \$490,610, and increase Beginning Net Assets in the Capital Reserve Loan Fund and Ending Net Assets in the Capital Reserve Loan Fund by \$490,610.

STATE OF DELAWARE
DELAWARE WATER POLLUTION CONTROL
REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 9 SUBSEQUENT EVENTS

American Recovery and Reinvestment Act of 2009

The Fund has been awarded additional funding as a result of the American Recovery and Reinvestment Act of 2009 in the amount of \$19,239,100. The Fund is currently processing various loan applications and will start disbursing the funds in FY 2010.

Interfund Receivable and Payable

In September of 2009, the Fund transferred the monies owed from the Capital Fund to the Non-Federal Administrative Fund. The amount transferred was \$1,052,256. The effect of the transfer was to decrease cash in the Capital Fund by \$1,052,256, and increase cash in the Non-Federal Admin Fund by the same amount. There are no remaining interfund receivables or payables.

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements
in Accordance with Government Auditing Standards

To the Management
Delaware Water Pollution Control
Revolving Loan Fund
State of Delaware

We have audited the accompanying financial statements of the Delaware Water Pollution Control Revolving Loan Fund (the Fund) of the State of Delaware, as of and for the year ended June 30, 2009 and have issued our report thereon dated September 29, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 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 misstatement of the Fund's financial statements will not be prevented or detected on a timely basis.

Independent Auditors' 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 (Cont'd.)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

This report is intended solely for the information and use of the Fund's management, the Governor, the Attorney General, the Controller General, the Office of Management and Budget, the Secretary of Finance, the Office of Auditor of Accounts and the Environmental Protection Agency, and is not intended to be used and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

McBride, Shopa & Co

Wilmington, Delaware
September 29, 2009

STATE OF DELAWARE
DELAWARE WATER POLLUTION CONTROL
REVOLVING LOAN FUND
SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED JUNE 30, 2009

CURRENT YEAR FINDINGS:

NONE

PRIOR YEAR FINDING:

NONE

STATE OF DELAWARE
 DELAWARE WATER POLLUTION CONTROL
 REVOLVING LOAN FUND
 STATEMENTS OF FUND NET ASSETS
 JUNE 30, 2009 AND 2008

	2009				2008 (Restated)			
	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total
ASSETS								
CURRENT ASSETS								
Cash	\$ 1,128	\$ 46,240,320	\$ 9,272,763	\$ 55,514,211	\$ 1,128	\$ 37,842,378	\$ 7,952,627	\$ 45,796,133
Grants receivable	-	122,400	-	122,400	-	4,073,509	-	4,073,509
Administrative fees receivable	-	-	204,601	204,601	-	-	233,928	233,928
Interfund receivable	-	-	1,052,256	1,052,256	-	-	1,052,256	1,052,256
Interest receivable	-	188,007	-	188,007	-	245,759	-	245,759
Loans receivable - current	-	12,026,294	-	12,026,294	-	8,752,325	-	8,752,325
	<u>1,128</u>	<u>58,577,021</u>	<u>10,529,620</u>	<u>69,107,769</u>	<u>1,128</u>	<u>50,913,971</u>	<u>9,238,811</u>	<u>60,153,910</u>
NONCURRENT ASSETS								
Loans receivable - less current portion	-	114,157,270	-	114,157,270	-	117,614,622	-	117,614,622
TOTAL ASSETS	<u>\$ 1,128</u>	<u>\$ 172,734,291</u>	<u>\$ 10,529,620</u>	<u>\$ 183,265,039</u>	<u>\$ 1,128</u>	<u>\$ 168,528,593</u>	<u>\$ 9,238,811</u>	<u>\$ 177,768,532</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Vouchers payable	\$ -	\$ 242,471	\$ -	\$ 242,471	\$ -	\$ 4,073,533	\$ -	\$ 4,073,533
Interfund payable	-	1,052,256	-	1,052,256	-	1,052,256	-	1,052,256
TOTAL LIABILITIES	<u>-</u>	<u>1,294,727</u>	<u>-</u>	<u>1,294,727</u>	<u>-</u>	<u>5,125,789</u>	<u>-</u>	<u>5,125,789</u>
NET ASSETS - unrestricted	<u>1,128</u>	<u>171,439,564</u>	<u>10,529,620</u>	<u>181,970,312</u>	<u>1,128</u>	<u>163,402,804</u>	<u>9,238,811</u>	<u>172,642,743</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 1,128</u>	<u>\$ 172,734,291</u>	<u>\$ 10,529,620</u>	<u>\$ 183,265,039</u>	<u>\$ 1,128</u>	<u>\$ 168,528,593</u>	<u>\$ 9,238,811</u>	<u>\$ 177,768,532</u>

The accompanying notes are an integral part of these statements.

STATE OF DELAWARE
 DELAWARE WATER POLLUTION CONTROL
 REVOLVING LOAN FUND
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 YEARS ENDED JUNE 30, 2009 AND 2008

	2009				2008 (Restated)			
	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total
OPERATING REVENUES								
Interest Income on loans	\$ -	\$ 1,305,814	\$ -	\$ 1,305,814	\$ -	\$ 1,151,738	\$ -	\$ 1,151,738
Administrative fee revenue	-	-	1,680,087	1,680,087	-	-	1,634,040	1,634,040
Application Fees	-	-	1,043	1,043	-	-	1,910	1,910
Other Income	-	809	-	809	-	910	-	910
	-	1,306,623	1,681,130	2,987,753	-	1,152,648	1,635,950	2,788,598
OPERATING EXPENSES								
Reimbursable Expenditures Under								
Personnel costs	191,964	-	387,671	579,635	128,603	-	429,443	558,046
Travel	2,184	-	1,690	3,874	1,444	-	4,853	6,297
Contractual Services	64,840	-	128,493	193,333	76,145	-	164,350	240,495
Supplies and Office Expenses	7,431	-	33,865	41,296	6,894	-	26,639	33,533
Other Expenses	3,880	603	1,473	5,956	7,604	2,265	695	10,564
Loans made		7,824,079	-	7,824,079		12,422,055	-	12,422,055
	270,299	7,824,682	553,192	8,648,173	220,690	12,424,320	625,980	13,270,990
<u>Adjustments to Reconcile</u>								
Reimbursable Expenditures to Operating Expenses								
Less: Loans made	-	(7,824,079)	-	(7,824,079)	-	(12,422,055)	-	(12,422,055)
	-	(7,824,079)	-	(7,824,079)	-	(12,422,055)	-	(12,422,055)
TOTAL OPERATING EXPENSES	270,299	603	553,192	824,094	220,690	2,265	625,980	848,935
OPERATING INCOME (LOSS)	(270,299)	1,306,020	1,127,938	2,163,659	(220,690)	1,150,383	1,009,970	1,939,663
NONOPERATING REVENUE								
Interest income on deposits	-	780,403	162,871	943,274	-	1,387,428	311,634	1,699,062
Contributions - EPA	225,539	4,958,630	-	5,184,169	174,975	12,946,101	-	13,121,076
Contributions - State	44,760	991,707	-	1,036,467	46,843	2,437,614	-	2,484,457
	270,299	6,730,740	162,871	7,163,910	221,818	16,771,143	311,634	17,304,595
CHANGE IN NET ASSETS - unrestricted	-	8,036,760	1,290,809	9,327,569	1,128	17,921,526	1,321,604	19,244,258
BEGINNING NET ASSETS	1,128	163,402,804	9,238,811	172,642,743	-	145,481,278	7,917,207	153,398,485
ENDING NET ASSETS - unrestricted	\$ 1,128	\$ 171,439,564	\$ 10,529,620	\$ 181,970,312	\$ 1,128	\$ 163,402,804	\$ 9,238,811	\$ 172,642,743

The accompanying notes are an integral part of these statements.

STATE OF DELAWARE
DELAWARE WATER POLLUTION CONTROL
REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities		
Loan collections	\$ 7,992,228	\$ 5,915,401
Interest received from borrowers	1,363,566	1,126,335
Administrative fee revenue	1,709,414	1,614,859
Application fees and other revenue	1,852	2,819
Loan disbursements	(11,639,907)	(12,733,370)
General expenses paid	(824,094)	(848,910)
Net cash used by operating activities	(1,396,941)	(4,922,866)
Cash flows from noncapital financing activities		
Grants received from EPA	8,476,745	11,246,655
Grants received from State of Delaware	1,695,000	2,109,628
Net cash provided by noncapital financing activities	10,171,745	13,356,283
Cash flows from investing activities		
Interest on deposits	943,274	1,699,062
Net cash provided by investing activities	943,274	1,699,062
CHANGE IN CASH AND CASH EQUIVALENTS	9,718,078	10,132,479
Cash and cash equivalents - beginning of year	45,796,133	35,663,654
Cash and cash equivalents - end of year	\$ 55,514,211	\$ 45,796,133
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Cash flows from operating activities		
Operating income	\$ 2,163,659	\$ 1,939,663
Adjustments to reconcile operating income to net cash used by operating activities:		
Administrative fees receivable	29,327	(19,180)
Interest receivable	57,752	(25,403)
Intercompany receivable	-	-
Loans receivable	183,383	(9,067,218)
Vouchers payable	(3,831,062)	2,249,272
Intercompany payable	-	-
Accrued expenses	-	-
Net cash used by operating activities	\$ (1,396,941)	\$ (4,922,866)

The accompanying notes are an integral part of these statements.