

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
FINANCIAL STATEMENTS
JUNE 30, 2010

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Independent Auditors' Report

To the Management
Drinking Water Revolving Loan Fund
Dover, Delaware

We have audited the accompanying financial statements of Drinking Water Revolving Loan Fund (the Fund) of the State of Delaware, as of and for the years ended June 30, 2010 and 2009, as listed in the index. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and are not intended to present the financial position of the State of Delaware, and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2010, 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 an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditors' Report (Cont'd.)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 27 through 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McBride, Shopp & Co

Wilmington, Delaware
September 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

The State of Delaware Drinking Water Revolving Loan Fund (the Fund) established through Chapter 79, Title 29, Subsection 15 of the Delaware Code, provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. The Fund is funded through federal capitalization grants as established under Section 1452 of the Safe Drinking Water Act. The Act requires the State of Delaware to provide matching funds equal to 20 percent of federal funds received.

The Fund is administered by the State of Delaware, Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance and managing the Fund to meet the objectives of the Safe Drinking Water Act.

The Fund is made up of five sub-funds, each of which is considered a separate accounting entity. The primary activity of the Loan Fund is the issuance of loans. The four Set-aside Sub-Funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

The Fund's activities are accounted for as a distinct operating unit within the DPH. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds of the State of Delaware that is attributable to the transactions of the Fund.

The Fund is accounted for as an enterprise fund. The accrual basis of accounting is utilized in enterprise funds. Revenue is recognized when earned and expenses are recognized when the liability is incurred.

This section of the Fund's annual financial report presents management's discussion and analysis of the Fund's financial performance for the fiscal year ended June 30, 2010. All amounts in Tables 1 and 2 of management's discussion and analysis are in thousands of dollars unless otherwise noted. It must be read in conjunction with the Fund's financial statements, which follow this section.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2010

Financial Highlights (numbers in thousands)

The Fund realized a change in net assets of \$14,333.2 in fiscal year 2010, which represents an increase of 42.8% from the change in net assets of \$10,040.7 in fiscal year 2009 due to increased loan activity, which includes funding from the American Recovery and Reinvestment Act for special projects.

Grant revenue recognized from the Federal and State governments totaled \$14,722.7 in fiscal year 2010, a 44.2% increase from fiscal year 2009 due to increased loan activity, which includes funding from the American Recovery and Reinvestment Act for special projects.

Loans made totaled \$13,043.5 during this fiscal year, which represents an increase of \$5,020.4 from the previous year. This increase of 62.6% was caused by decreased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$1,581.5 during this fiscal year. This represents an overall increase of \$200.1, or 14.5% from the prior year because more loan recipients have completed their projects, at which time repayments of principal amounts are required to take place.

Statement of Net Assets

The total net assets of the Fund for year ending June 30, 2010 increased by \$14,333.2. The following condensed statement of net assets (Table 1) shows a summary of changes in dollars and percentages between fiscal years.

Cash increased approximately \$2,735.6 million, 14.9%, to \$21,069.9 based on an increase in loan repayments and loan origination fees received. Loans receivable increased by \$11,462.0 million, 21.0%, to \$66,110.1, mostly as a result of the issuance of one new loan and more draws on seven existing loans. Federal grants receivable increased by approximately \$11.8, 81.9%, mostly due to the timing of reimbursements requests from EPA during the fiscal year ended June 30, 2010.

State advances increased identically to Federal grants receivable as this account represents amounts advanced to the Fund in anticipation of Federal grants and State expenditures as of June 30, 2010. Deferred revenue from the State match increased by \$20.0, 0.3%, as the State drew down its match to fund loan disbursements to seven recipients during the fiscal year, but it received a new grant from EPA which required a match that was deposited into the Fund, which contributed to the overall increase.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2010

TABLE 1
STATEMENT OF NET ASSETS
(Thousands of Dollars)

	<u>2010</u>	<u>2009</u>	<u>Increase (decrease)</u>	<u>Percent Change</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 21,069.9	\$ 18,334.3	\$ 2,735.6	14.9
Loans, current portion	2,157.0	1,687.1	469.9	27.9
Loan interest	579.0	413.7	165.3	40.0
Loan to Drinking Water Grant Fund	-	240.7	(240.7)	(100.0)
Federal grants receivable	26.2	14.4	11.8	81.9
Federal advances	-	549.3	(549.3)	(100.0)
State grants receivable	<u>3,294.1</u>	<u>3,275.0</u>	<u>19.1</u>	<u>0.6</u>
Total current assets	27,126.2	24,514.5	2,611.7	10.7
NONCURRENT ASSETS				
Loans, net of current portion	<u>63,953.1</u>	<u>52,961.0</u>	<u>10,992.1</u>	<u>20.8</u>
Total assets	<u>\$ 91,079.3</u>	<u>\$ 77,475.5</u>	<u>\$ 13,603.8</u>	<u>17.6</u>
LIABILITIES				
Federal grants payable	\$ -	\$ 549.3	\$ (549.3)	(100.0)
State advances	26.2	14.4	11.8	81.9
Refundable advance	-	211.8	(211.8)	(100.0)
Deferred revenue - state match	<u>7,713.6</u>	<u>7,693.7</u>	<u>19.9</u>	<u>0.3</u>
Total liabilities	7,739.8	8,469.2	(729.4)	(8.6)
NET ASSETS - unrestricted	<u>83,339.5</u>	<u>69,006.3</u>	<u>14,333.2</u>	<u>20.8</u>
Total liabilities and net assets	<u>\$ 91,079.3</u>	<u>\$ 77,475.5</u>	<u>\$ 13,603.8</u>	<u>17.6</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2010

Statement of Revenue, Expenses and Changes in Net Assets (numbers in thousands)

The following schedule summarizes the statement of revenue, expenses, and changes in net assets of the Fund for the fiscal years ended June 30, 2010 and 2009.

Federal grant revenue for loans increased by \$4,364.3, 69.2%, but the State match revenue increased by \$122.9, 8.5%. There was an increase in demand from seven recipients for drawing down on their low-interest loans during the current year; however, the percentage of state match contributions increased at a lower rate because the American Recovery and Reinvestment Act funding from EPA does not require a state match.

Federal grant revenue for set-aside sub-funds increased by approximately \$22.5, 0.9% due to slightly increased activities in the set-aside sub-funds by the Office of Drinking Water.

Interest income from cash deposits decreased by \$156.6, 42.8%, due mainly to decreases in interest rates (see Note 2).

Operating expenses increased by approximately \$46.7, 1.9%, due mainly to increased activity in the sub-funds by the Office of Drinking Water, especially with regards to subgrants as DNREC was able to spend its allocation more expediently during fiscal year 2010.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2010

TABLE 2
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
(Thousands of Dollars)

	<u>2010</u>	<u>2009</u>	<u>Increase (decrease)</u>	<u>Percent Change</u>
Operating revenue				
Loan origination fees	\$ 20.9	\$ 395.4	\$ (374.5)	(94.7)
Interest income - loans	<u>1,889.8</u>	<u>1,529.2</u>	<u>360.6</u>	<u>23.6</u>
Total operating revenue	1,910.7	1,924.6	(13.9)	(0.7)
Operating expenses				
Salaries and related benefits	608.9	623.2	(14.3)	(2.3)
Contract services	943.7	618.0	325.7	52.7
Indirect costs	52.1	46.7	5.4	11.6
Subgrants	859.6	1,085.0	(225.4)	(20.8)
Supplies	30.1	38.1	(8.0)	(21.0)
Equipment	14.0	4.2	9.8	233.3
Travel	6.8	16.4	(9.6)	(58.5)
Training	<u>(6.1)</u>	<u>30.8</u>	<u>(36.9)</u>	<u>(119.8)</u>
Total operating expenses	<u>2,509.1</u>	<u>2,462.4</u>	<u>46.7</u>	<u>1.9</u>
Operating income (loss)	(598.4)	(537.8)	(60.6)	11.3
Non-operating revenue				
Interest income - cash deposits	208.9	365.5	(156.6)	(42.8)
Grant revenue - loans	10,670.1	6,305.8	4,364.3	69.2
Grant revenue - set asides	2,484.9	2,462.4	22.5	0.9
State match	<u>1,567.7</u>	<u>1,444.8</u>	<u>122.9</u>	<u>8.5</u>
Total non-operating revenue	<u>14,931.6</u>	<u>10,578.5</u>	<u>4,353.1</u>	<u>41.2</u>
Change in net assets	14,333.2	10,040.7	4,292.5	42.8
Net assets, beginning of year	<u>69,006.3</u>	<u>58,965.6</u>	<u>10,040.7</u>	<u>17.0</u>
Net assets, end of year	<u>\$ 83,339.5</u>	<u>\$ 69,006.3</u>	<u>\$ 14,333.2</u>	<u>20.8</u>

FINANCIAL STATEMENTS

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF FUND NET ASSETS
JUNE 30, 2010 AND 2009

ASSETS		<u>2010</u>	<u>2009</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	21,069,862	\$ 18,334,251
Loans receivable - current portion		2,157,022	1,687,124
Interest receivable - loans		579,026	413,693
Loan to Drinking Water Grant Fund		-	240,683
Federal grants receivable		26,176	14,433
Federal advances		-	549,328
State grants receivable		<u>3,294,085</u>	<u>3,275,000</u>
Total current assets		27,126,171	24,514,512
NONCURRENT ASSETS			
Loans receivable - net of current portion		<u>63,953,111</u>	<u>52,961,052</u>
Total assets	\$	<u>91,079,282</u>	\$ <u>77,475,564</u>
LIABILITIES			
CURRENT LIABILITIES			
Federal grants payable	\$	-	\$ 549,328
State advances		26,176	14,433
Refundable advance		<u>-</u>	<u>211,835</u>
Total current liabilities		26,176	775,596
LONG-TERM LIABILITIES			
Deferred revenue - state match		<u>7,713,625</u>	<u>7,693,671</u>
Total liabilities		7,739,801	8,469,267
NET ASSETS			
NET ASSETS - unrestricted		<u>83,339,481</u>	<u>69,006,297</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>91,079,282</u>	\$ <u>77,475,564</u>

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

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUE		
Interest income - loans	\$ 944,914	\$ 764,576
Interest income - administrative fees	944,914	764,576
Loan origination fees	20,888	395,437
Total operation revenue	1,910,716	1,924,589
OPERATING EXPENSES		
Salaries and related benefits	608,877	623,166
Contract services	943,652	618,009
Indirect costs	52,084	46,667
Subgrants	859,616	1,085,038
Supplies	30,133	38,065
Equipment	13,956	4,137
Training	(6,000)	30,940
Travel	6,767	16,342
Total operating expenses	2,509,085	2,462,364
Operating loss	(598,369)	(537,775)
NONOPERATING INCOME REVENUE		
Interest income - cash	208,885	365,491
Grant revenue	10,670,053	6,305,788
Grant revenue - set asides	2,484,885	2,462,364
State match	1,567,730	1,444,840
Total non-operating revenue	14,931,553	10,578,483
CHANGE IN NET ASSETS	14,333,184	10,040,708
NET ASSETS - BEGINNING	69,006,297	58,965,589
NET ASSETS - ENDING	\$ 83,339,481	\$ 69,006,297

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

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Loan repayments	\$ 1,581,513	\$ 1,381,381
Interest received from borrowers	1,724,495	1,583,667
Loan origination fees	20,888	395,437
Loan disbursements	(13,043,470)	(8,023,059)
Salaries and related benefits paid	(608,877)	(623,166)
General expenses paid	<u>(1,900,208)</u>	<u>(1,819,198)</u>
 NET CASH USED BY OPERATING ACTIVITIES	 (12,225,659)	 (7,104,938)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from cash deposits	<u>208,885</u>	<u>365,491</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 208,885	 365,491
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Loan repayment from Drinking Water Grant Fund	240,683	32,554
Grants received from EPA	12,382,032	9,299,009
Advances from (repayments to) State of Delaware	561,071	(550,858)
Grants received from State of Delaware	<u>1,568,599</u>	<u>-</u>
 NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	 <u>14,752,385</u>	 <u>8,780,705</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 2,735,611	 2,041,258
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>18,334,251</u>	 <u>16,292,993</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 21,069,862</u>	 <u>\$ 18,334,251</u>

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

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (598,369)	\$ (537,775)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Loans receivable	(11,461,957)	(6,641,678)
Interest receivable	(165,333)	54,515
In-kind contributed services	-	20,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (12,225,659)	\$ (7,104,938)

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

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the State of Delaware Drinking Water Revolving Loan Fund (the Fund) is presented to assist in understanding the Fund's financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

General Background. The State of Delaware Drinking Water Revolving Loan Fund established through Chapter 79, Title 29, Subsection 15 of the Delaware Code, provides financial assistance to eligible public water systems in Delaware for the planning, design, and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. Standard loans made by the Fund must be repaid within 20 to 30 years. All repayments, including interest and principal, must remain in the Fund.

The Fund is administered by the State of Delaware, Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance and managing the coordination of the Fund to meet the objectives of the Safe Drinking Water Act.

The Fund is funded through federal capitalization grants as established under Section 1452 of the Safe Drinking Water Act. The Act requires the State of Delaware to provide matching funds equal to 20 percent of federal funds received. The grants were issued as follows:

Grant Year	Total Available Funding	Federal Portion	State Portion
1997	\$ 15,070,560	\$ 12,558,800	\$ 2,511,760
1999	17,502,120	14,585,100	2,917,020
2001	9,308,400	7,757,000	1,551,400
2002	9,346,920	7,789,100	1,557,820
2003	9,663,000	8,052,500	1,610,500
2004	9,604,920	8,004,100	1,600,820
2005	9,963,720	8,303,100	1,660,620
2006	9,942,600	8,285,500	1,657,100
2007	9,875,160	8,229,300	1,645,860
2008	19,650,000	16,375,000	3,275,000
2009	9,894,510	8,245,425	1,649,085
ARRA	19,500,000	19,500,000	-
Total	<u>\$ 149,321,910</u>	<u>\$ 127,684,925</u>	<u>\$ 21,636,985</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
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JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

The 2007 match was deposited by the State into the Fund during fiscal year 2008. The 2008 match will be deposited by the State into the Fund during State fiscal year 2010.

The Fund received a grant of \$19,500,000 from the American Recovery and Reinvestment Act (ARRA) near the end of fiscal year 2009. The funds are available to be drawn for specific purposes. At June 30, 2010, approximately 53.4% of ARRA funding was used for the specific purposes.

The Fund is accounted for as an enterprise fund. The Fund is made up of several sub-funds, each of which is considered a separate accounting entity. The sub-funds are described below:

Loan Fund

The primary purpose of the Loan Fund is to serve as a permanent loan fund to make low-interest loans to public water systems.

Set-aside Sub-Funds

The Set-aside Sub-Funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

There are four such funds.

1. The 2% Technical Assistance Sub-Fund is used to account for the funds allotted to the State (up to 2% of the total) to provide assistance to public water systems serving 10,000 people or fewer.
2. The 4% Administration Sub-Fund is used to account for the funds allotted to the State (up to 4% of the total) for the reasonable costs of administering the programs under section 1452 and providing technical assistance. These costs may include such activities as issuing debt; program start-up costs; audit costs; financial, management and legal consulting fees; development of an intended use plan and priority ranking system; development of affordability criteria; and cost of support services provided by other State agencies.

STATE OF DELAWARE
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Set-aside Sub-Funds (Cont'd.)

3. The 10% Program Management Sub-Fund is used to account for the funds allotted to the State (up to 10% of the total) to:

- a. administer the State Public Water Supply System (PWSS) program;
- b. administer or provide technical assistance through source water protection programs;
- c. develop and implement a capacity development strategy; and
- d. develop and implement an operator certification program.

The State must provide a dollar for dollar match (100 percent for up to 10 percent of the capitalization grant) for capitalization grant funds used for these purposes. This match is separate, and in addition to, the 20 percent match for the capitalization grant.

4. The 15% Local Assistance Sub-Funds are used to fund several other categories of activities to assist development and implementation of local drinking water protection initiatives with the stipulation that not more than 20% of the capitalization grant amount can be used for any one activity.

Type of Entity and Division of Funds. The Fund's activities are accounted for as a distinct operating unit within the DPH. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds and account groups of the State of Delaware that is attributable to the transactions of the Fund.

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 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.

Basis of Accounting. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred.

STATE OF DELAWARE
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NOTES TO THE FINANCIAL STATEMENTS
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recognition of Revenues. By the terms of agreements between the State and the EPA, which commenced in fiscal year 1999, federal assistance provided to the Fund is earned when qualified loans and expenditures are made to eligible public water systems. Matching funds provided by the State are considered earned by the same criteria. However, in fiscal year 2002, the State's matching requirement for the Set-aside Funds was met using designated expenditures made for other programs; therefore, no State monies were required to be provided to the Set-aside Funds. The State's matching requirement for the Loan Fund was made using State General Fund monies.

Amounts earned in excess of grant monies received from EPA and the State are recorded as grants receivable, whereas an excess of grant monies received over the amounts earned is recorded as deferred grant revenue. A right of set-off does not exist between the State and EPA.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Fund considers short-term investments with an original maturity of three months or less to be cash equivalents.

Operating and Non-operating Revenues. The Fund considers revenue from its lending activities in the Loan sub-fund to be operating. It considers revenue from grants and interest income received on cash deposits to be non-operating.

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 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.

Subsequent Events. Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through the date of the auditors' report, which is the date the financial statements were available to be issued.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 CASH AND CASH EQUIVALENTS

Cash. "Cash and cash equivalents," as reported on the statement of net assets, represents the Fund's allocated share of deposits and investments under the control of the Treasurer of the State of Delaware. All cash deposited with the Treasurer by state agencies is maintained by the Treasurer in various pooled funds. The State Treasurer invests the deposited cash including cash float in short-term securities and other investments. 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. 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 Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware," of the State's 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 with certain limited exceptions.

Investment Guidelines and Management. The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

- A. Cash Accounts: Divide the State's available cash into three parts:
 - 1) Collection and Disbursement Accounts,
 - 2) Cash and Liquidity Accounts,
 - 3) Reserve Cash (Intermediate) Accounts.

- B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:
 - 1) Endowment Accounts,
 - 2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts, and Component Units) maintain a variety of fund types, including various operating funds, bond funds, and debt service reserve funds.

The Fund's accounts are considered Cash Accounts.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

CASH AND CASH EQUIVALENTS (Cont'd.)

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The State's Cash Management Policy is available on the Internet at http://treasurer.delaware.gov/information/cash_investment.shtml.

Custodial Credit Risk

Collateralization Requirements. All State deposits 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. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% 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.

At June 30, 2010, the financial institutions maintaining the Fund's deposits satisfied the criteria listed above and the deposits held by those institutions did not require collateralization.

STATE OF DELAWARE
 DRINKING WATER REVOLVING LOAN FUND
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 3 AVAILABLE FUNDING, DISBURSEMENTS AND REMAINING BALANCE BY FUNDING YEAR

As of June 30, 2010, the Fund had federal grants totaling \$127,684,925, from which it had made disbursements of \$84,256,786. The breakdown for all grants is as follows:

Loan Fund

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 9,288,036	\$ 9,288,036	\$ -
1999	11,642,600	11,642,600	-
2001	5,852,330	5,852,330	-
2002	5,653,979	5,653,979	-
2003	6,190,765	6,190,765	-
2004	6,164,343	6,164,343	-
2005	6,281,257	6,281,257	-
2006	6,229,432	1,578,785	4,650,647
2007	5,957,099	-	5,957,099
2008	15,562,690	-	15,562,690
2009	5,735,685	-	5,735,685
ARRA	<u>18,778,138</u>	<u>10,221,455</u>	<u>8,556,683</u>
Total	<u>\$ 103,336,354</u>	<u>\$ 62,873,550</u>	<u>\$ 40,462,804</u>

Set-aside Funds

2% Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 251,176	\$ 251,176	\$ -
1999	291,702	291,702	-
2001	155,140	155,140	-
2002	155,782	155,782	-
2003	75,133	75,133	-
2004	86,937	86,937	-
2005	166,062	166,062	-
2006	149,588	118,912	30,676
2007	164,586	82,745	81,841
2008	-	-	-
2009	147,400	1,893	145,507
ARRA	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,643,506</u>	<u>\$ 1,385,482</u>	<u>\$ 258,024</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

AVAILABLE FUNDING, DISBURSEMENTS AND REMAINING BALANCE BY FUNDING YEAR (Cont'd.)

4% Administration

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 502,352	\$ 502,352	\$ -
1999	583,404	583,404	-
2001	310,280	310,280	-
2002	311,564	311,564	-
2003	305,960	305,960	-
2004	215,566	215,566	-
2005	332,124	332,124	-
2006	329,284	329,114	170
2007	329,172	252,970	76,202
2008	-	-	-
2009	325,840	82,589	243,251
ARRA	<u>721,862</u>	<u>379,154</u>	<u>342,708</u>
Total	<u>\$ 4,267,408</u>	<u>\$ 3,605,077</u>	<u>\$ 662,331</u>

10% Program Management

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 633,416	\$ 633,416	\$ -
1999	1,458,510	1,458,510	-
2001	775,700	775,700	-
2002	778,910	778,910	-
2003	805,250	805,250	-
2004	736,904	736,904	-
2005	830,310	830,310	-
2006	811,893	811,591	302
2007	822,930	761,248	61,682
2008	500,000	286,446	213,554
2009	814,600	169,737	644,863
ARRA	-	-	-
Total	<u>\$ 8,968,423</u>	<u>\$ 8,048,022</u>	<u>\$ 920,401</u>

STATE OF DELAWARE
 DRINKING WATER REVOLVING LOAN FUND
 NOTES TO THE FINANCIAL STATEMENTS
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AVAILABLE FUNDING, DISBURSEMENTS AND REMAINING BALANCE BY FUNDING YEAR (Cont'd.)

15% Local Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 1,883,820	\$ 1,883,820	\$ -
1999	608,884	608,884	-
2001	663,550	663,550	-
2002	888,865	888,865	-
2003	675,392	675,392	-
2004	800,350	800,350	-
2005	693,347	693,347	-
2006	765,303	765,303	-
2007	955,513	923,914	31,599
2008	312,310	167,065	145,245
2009	1,221,900	274,165	947,735
ARRA	-	-	-
Total	<u>\$ 9,469,234</u>	<u>\$ 8,344,655</u>	<u>\$ 1,124,579</u>

Total Program Balance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 12,558,800	\$ 12,558,800	\$ -
1999	14,585,100	14,585,100	-
2001	7,757,000	7,757,000	-
2002	7,789,100	7,789,100	-
2003	8,052,500	8,052,500	-
2004	8,004,100	8,004,100	-
2005	8,303,100	8,303,100	-
2006	8,285,500	3,603,705	4,681,795
2007	8,229,300	2,020,877	6,208,423
2008	16,375,000	453,511	15,921,489
2009	8,245,425	528,384	7,717,041
ARRA	19,500,000	10,600,609	8,899,391
Total	<u>\$ 127,684,925</u>	<u>\$ 84,256,786</u>	<u>\$ 43,428,139</u>

STATE OF DELAWARE
 DRINKING WATER REVOLVING LOAN FUND
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 4 UNUSED FEDERAL FUNDS

The following is a summary of the federal cash draws and disbursements executed during fiscal year 2010 and the remaining unused balance for the 2005 - 2009 entitlements as of June 30, 2010:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>ARRA</u>
Begin	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fed grants	3,444,097	1,867,851	860,596	451,197	506,884	10,595,688
Loans	(3,987,900)	(1,578,785)	-	-	-	(10,221,456)
Set asides	<u>543,803</u>	<u>(289,066)</u>	<u>(860,596)</u>	<u>(451,197)</u>	<u>(506,884)</u>	<u>(374,232)</u>
Unused	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 GRANTS RECEIVABLE

Grants receivable of \$26,176 and \$14,433, as of June 30, 2010 and 2009, respectively, represent amounts due from the Federal government for amounts expended or accrued.

The fiscal year 2005 grant was overdrawn by \$549,328 at June 30, 2009.

NOTE 6 STATE ADVANCES

The State advances of \$26,176 and \$14,433 as of June 30, 2010 and 2009, respectively, represent amounts advanced to the Fund by the State's General Fund in anticipation of reimbursement from federal grants.

The State received federal funds in excess of expenditures of \$549,328 for the fiscal year 2005 grant at June 30, 2009.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 LOANS RECEIVABLE

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

	Binding <u>Commitments</u>	Loans Receivable	
		<u>2010</u>	<u>2009</u>
Municipal:			
Town of Felton	\$ 370,000	\$ 222,434	\$ 239,837
Town of Frankford	1,095,000	860,328	860,328
Town of Blades	515,300	388,499	404,521
Town of Milton	643,370	530,909	546,581
City of Wilmington	63,308,501	35,066,311	24,710,607
Town of Greenwood	1,460,230	1,328,532	932,000
Town of Dagsboro	1,400,000	1,193,555	1,240,946
Town of Millsboro	5,139,700	4,366,094	1,735,474
Town of Laurel	3,595,300	3,062,944	954,247
Town of Smyrna	7,279,000	4,203,477	2,970,713
City of Lewes	2,016,000	1,106,136	1,157,827
Town of Clayton	850,000	800,942	833,868
Town of Bridgeville	250,000	195,433	-
City of Rehoboth Beach	5,000,000	4,789,621	5,000,000
City of Seaford	2,729,408	746,085	-
City of Dover	2,404,017	-	-
Town of Delmar	400,206	-	-
Town of Georgetown	<u>556,500</u>	<u>87,145</u>	<u>91,113</u>
Total Municipal:	99,012,532	58,948,445	41,678,062
Investor-owned:			
Artesian Water Company	16,580,924	5,841,001	6,183,919
Tidewater Utilities, Inc.	10,128,753	6,354,172	6,473,389
J.H. Wilkerson & Son, Inc.	<u>410,800</u>	<u>275,103</u>	<u>289,809</u>
Total Investor-owned	27,120,477	12,470,276	12,947,117
Mobile Home Park:			
Innovative Construction	<u>34,321</u>	<u>21,336</u>	<u>22,997</u>
	<u>\$ 126,167,330</u>	71,440,057	54,648,176
Less: ARRA reserve		<u>5,329,924</u>	<u>-</u>
Loans receivable		66,110,133	-
Less: loans receivable - current portion		<u>2,157,022</u>	<u>1,687,124</u>
Loans receivable - net of current portion		<u>\$ 63,953,111</u>	<u>\$ 52,961,052</u>

STATE OF DELAWARE
 DRINKING WATER REVOLVING LOAN FUND
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

LOANS RECEIVABLE (Cont'd.)

Interest charged on these loans ranges from 1.50% to 4.46%. Interest earned on loans receivable was \$1,889,828 and \$1,529,152 for the years ending June 30, 2010 and 2009, respectively.

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 investor-owned and mobile home park loans.

There is no allowance for doubtful accounts as of June 30, 2010 and 2009. As of June 30, 2010 and 2009, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2010 and 2009. There has been no history of significant bad debts or uncollectible accounts.

The ARRA reserve of \$5,329,924 represents expenditures for loans which will be reclassified as grants to the municipalities at the end of the respective construction periods.

NOTE 8 DEFERRED REVENUE - STATE MATCH

As of June 30, 2010, the Fund had total available state match funding in its separate cash account as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 2,511,760	\$ 2,511,760	\$ -
1999	2,917,020	2,917,020	-
2001	1,551,400	1,551,400	-
2002	1,557,820	1,557,820	-
2003	1,610,500	1,610,500	-
2004	1,600,820	1,600,820	-
2005	1,660,620	1,660,620	-
2006	1,657,100	513,420	1,143,680
2007	1,645,860	-	1,645,860
2008	3,275,000	-	3,275,000
2009	1,649,085	-	1,649,085
Total	<u>\$ 21,636,985</u>	<u>\$ 13,923,360</u>	<u>\$ 7,713,625</u>

Interest earned on cash deposits totals \$208,885 and \$365,491 for the years ending June 30, 2010 and 2009, respectively.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 PENSION

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 \$62,199 for 2010 and \$66,967 for 2009 is included in salaries and related benefits. 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 this plan opted into a disability insurance program offered by the State effective January 1, 2006.

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

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

PENSION (Cont'd.)

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 10 COMMITMENTS AND CONTINGENCIES

General: The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God.

The State maintains insurance for all risks of loss which is included in the indirect costs charged to the Fund. There have not been any claims against the Fund since its inception.

Lease: The State of Delaware, Office on Management and Budget, Division of Support Services (DSS), on behalf of the Fund, entered into an operating lease for the office space occupied by the Fund on September 17, 1999. The DSS agreed to execute a First Amendment and Extension of Lease on November 1, 2004. The DSS further agreed to execute a Second Amendment and Extension of Lease on May 17, 2006. A new lease was executed on June 24, 2009 for the period May 1, 2009 through April 30, 2010, with a month-to-month provision commencing on May 1, 2010. Annual rental under the new lease is \$64,260 per annum (\$5,335 per month).

The first extended lease commenced November 1, 2004 and terminated on April 30, 2006. The second extended lease commenced May 1, 2006 and terminated on October 31, 2006. A month-to-month provision is included in the second extended lease until lessee vacates the premises. The second extended lease expired on April 30, 2010, but the month-to-month provision was enacted through September 30, 2010. On October 1, 2010, the Fund moved to a new location, which is owned by the State of Delaware, and no rental payments are expected to be made.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 11 LOAN TO DRINKING WATER GRANT FUND

The Fund loaned \$891,050 during fiscal year 2005 and \$382,187 during fiscal year 2007 (\$1,273,237 in total) to the State of Delaware, Department of Health and Social Services, Division of Public Health, Office of Drinking Water, Drinking Water Grant Fund (DWGF). This loan was made to assist DWGF's shortage of cash available to pay obligations incurred during those fiscal years. DWGF repaid the Fund \$1,000,000 during fiscal year 2008. The balance of \$273,237 was repaid in part by DWGF in fiscal year 2009. The balance was repaid during fiscal year ending June 30, 2010.

SUPPLEMENTARY INFORMATION

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF FUND NET ASSETS BY FUND
JUNE 30, 2010

	Loan Fund	2% Technical Assistance	4% Admin- istration	Restated 10% Program Management	15% Local Assistance	Total
CURRENT ASSETS						
Cash	\$ 21,069,862	\$ -	\$ -	\$ -	\$ -	\$ 21,069,862
Loans receivable - current portion	2,157,022	-	-	-	-	2,157,022
Loan interest receivable	579,026	-	-	-	-	579,026
Federal grants receivable	-	4,921	-	-	21,255	26,176
State grants receivable	3,294,085	-	-	-	-	3,294,085
Total current assets	27,099,995	4,921	-	-	21,255	27,126,171
NONCURRENT ASSETS						
Loans receivable - net of current portion	63,953,111	-	-	-	-	63,953,111
Total assets	<u>\$ 91,053,106</u>	<u>\$ 4,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,255</u>	<u>\$ 91,079,282</u>
CURRENT LIABILITIES:						
State advances	\$ -	\$ 4,921	\$ -	\$ -	\$ 21,255	\$ 26,176
LONG-TERM LIABILITIES:						
Deferred revenue - state match	7,713,625	-	-	-	-	7,713,625
Total liabilities	7,713,625	4,921	-	-	21,255	7,739,801
NET ASSETS - unrestricted	83,339,481	-	-	-	-	83,339,481
Total liabilities and net assets	<u>\$ 91,053,106</u>	<u>\$ 4,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,255</u>	<u>\$ 91,079,282</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF FUND NET ASSETS BY FUND
JUNE 30, 2009

	Loan Fund	2% Technical Assistance	4% Admin- istration	10% Program Management	15% Local Assistance	Total
CURRENT ASSETS						
Cash	\$ 18,334,251	\$ -	\$ -	\$ -	\$ -	\$ 18,334,251
Loans receivable - current portion	1,687,124	-	-	-	-	1,687,124
Loan interest receivable	413,693	-	-	-	-	413,693
Loan from Drinking Water Grant Fund	240,683	-	-	-	-	240,683
Federal grants receivable	-	-	-	7,600	6,833	14,433
Federal advances	549,328	-	-	-	-	549,328
State grants receivable	3,275,000	-	-	-	-	3,275,000
Total current assets	24,500,079	-	-	7,600	6,833	24,514,512
NONCURRENT ASSETS						
Loans receivable - net of current portion	52,961,052	-	-	-	-	52,961,052
Total assets	\$ 77,461,131	\$ -	\$ -	\$ 7,600	\$ 6,833	\$ 77,475,564
CURRENT LIABILITIES						
Federal grants payable	\$ 549,328	\$ -	\$ -	\$ -	\$ -	\$ 549,328
State advances	-	-	-	7,600	6,833	14,433
Refundable advance	211,835	-	-	-	-	211,835
LONG-TERM LIABILITIES						
Deferred revenue - state match	7,693,671	-	-	-	-	7,693,671
Total liabilities	8,454,834	-	-	7,600	6,833	8,469,267
NET ASSETS - unrestricted	69,006,297	-	-	-	-	69,006,297
Total liabilities and net assets	\$ 77,461,131	\$ -	\$ -	\$ 7,600	\$ 6,833	\$ 77,475,564

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Loan Fund	2% Technical Assistance	4% Adminis- tration	10% Program Management	15% Local Assistance	Total
OPERATING REVENUE						
Interest income - loans	\$ 944,914	\$ -	\$ -	\$ -	\$ -	\$ 944,914
Interest income - administrative fees	944,914	-	-	-	-	944,914
Loan origination fees	20,888	-	-	-	-	20,888
Total operating revenue	1,910,716	-	-	-	-	1,910,716
OPERATING EXPENSES						
Salaries and related benefits	-	4,418	334,069	146,309	124,081	608,877
Contract services	24,200	151,142	160,655	382,258	225,397	943,652
Indirect costs	-	457	30,603	7,655	13,369	52,084
Subgrants	-	-	115,676	253,021	490,919	859,616
Supplies	-	-	2,863	20,735	6,535	30,133
Equipment	-	-	-	13,956	-	13,956
Training	-	-	-	-	(6,000)	(6,000)
Travel	-	-	2,276	1,027	3,464	6,767
Total operating expenses	24,200	156,017	646,142	824,961	857,765	2,509,085
Operating income (loss)	1,886,516	(156,017)	(646,142)	(824,961)	(857,765)	(598,369)
NON-OPERATING REVENUE						
Interest income - cash	208,885	-	-	-	-	208,885
Grant revenue	10,670,053	-	-	-	-	10,670,053
Grant revenue - set asides	-	156,017	646,142	824,961	857,765	2,484,885
State match	1,567,730	-	-	-	-	1,567,730
Total non-operating revenue	12,446,668	156,017	646,142	824,961	857,765	14,931,553
CHANGE IN NET ASSETS	14,333,184	-	-	-	-	14,333,184
Net assets, beginning of year	69,006,297	-	-	-	-	69,006,297
Net assets, end of year	<u>\$83,339,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$83,339,481</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Loan Fund	2% Technical Assistance	4% Adminis- tration	10% Program Management	15% Local Assistance	Total
OPERATING REVENUE						
Interest income - loans	\$ 764,576	\$ -	\$ -	\$ -	\$ -	\$ 764,576
Interest income - administrative fees	764,576	-	-	-	-	764,576
Application fees	395,437	-	-	-	-	395,437
Total operating revenue	1,924,589	-	-	-	-	1,924,589
 OPERATING EXPENSES						
Salaries and related benefits	-	8,333	164,764	222,274	227,795	623,166
Contract services	-	163,750	88,336	250,616	115,067	617,769
Indirect costs	-	664	14,524	12,145	19,334	46,667
Subgrants	-	-	142,403	193,410	749,225	1,085,038
Supplies	-	-	948	34,297	3,059	38,304
Equipment	-	-	-	39,012	(34,875)	4,137
Training	-	-	21,376	3,150	6,415	30,941
Travel	-	-	48	13,263	3,031	16,342
Total operating expenses	-	172,747	432,399	768,167	1,089,051	2,462,364
Operating income (loss)	1,924,589	(172,747)	(432,399)	(768,167)	(1,089,051)	(537,775)
 NON-OPERATING REVENUE						
Interest income - cash	365,491	-	-	-	-	365,491
Grant revenue	6,305,788	-	-	-	-	6,305,788
Grant revenue - set asides	-	172,747	432,399	768,167	1,089,051	2,462,364
State match	1,444,840	-	-	-	-	1,444,840
Total non-operating revenue	8,116,119	172,747	432,399	768,167	1,089,051	10,578,483
CHANGE IN NET ASSETS	10,040,708	-	-	-	-	10,040,708
Net assets, beginning of year	58,965,589	-	-	-	-	58,965,589
Net assets, end of year	<u>\$69,006,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$69,006,297</u>

STATE OF DELAWARE
DRINKING WATER
REVOLVING LOAN FUND
STATEMENTS OF FUND NET ASSETS BY CLASSIFICATION
JUNE 30, 2010 AND 2009

	2010				2009			
	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	\$ -	\$ 15,647,292	\$ 5,422,570	\$ 21,069,862	\$ -	\$ 13,679,249	\$ 4,655,002	\$ 18,334,251
Loans receivable - current portion	-	2,157,022	-	2,157,022	-	1,687,124	-	1,687,124
Loan interest receivable	-	289,513	-	289,513	-	206,847	-	206,847
Administrative fees receivable	-	-	289,513	289,513	-	-	206,846	206,846
Loan from Drinking Water Grant Fund	-	-	-	-	-	249,106	(8,423)	240,683
Federal grants receivable	26,176	-	-	26,176	14,433	-	-	14,433
Federal advances	-	-	-	-	-	549,328	-	549,328
State grants receivable	-	3,294,085	-	3,294,085	-	3,275,000	-	3,275,000
	<u>26,176</u>	<u>21,387,912</u>	<u>5,712,083</u>	<u>27,126,171</u>	<u>14,433</u>	<u>19,646,654</u>	<u>4,853,425</u>	<u>24,514,512</u>
NONCURRENT ASSETS								
Loans receivable - net of current portion	-	63,953,111	-	63,953,111	-	52,961,052	-	52,961,052
TOTAL ASSETS	<u>\$ 26,176</u>	<u>\$ 85,341,023</u>	<u>\$ 5,712,083</u>	<u>\$ 91,079,282</u>	<u>\$ 14,433</u>	<u>\$ 72,607,706</u>	<u>\$ 4,853,425</u>	<u>\$ 77,475,564</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Federal grants payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 549,328	\$ -	\$ 549,328
State advances	26,176	-	-	26,176	14,433	-	-	14,433
Refundable advance	-	-	-	-	-	211,835	-	211,835
LONG-TERM LIABILITIES								
Deferred revenue - state match	-	7,713,625	-	7,713,625	-	7,693,671	-	7,693,671
Total liabilities	<u>26,176</u>	<u>7,713,625</u>	<u>-</u>	<u>7,739,801</u>	<u>14,433</u>	<u>8,454,834</u>	<u>-</u>	<u>8,469,267</u>
NET ASSETS - unrestricted	<u>-</u>	<u>77,627,398</u>	<u>5,712,083</u>	<u>83,339,481</u>	<u>-</u>	<u>64,152,872</u>	<u>4,853,425</u>	<u>69,006,297</u>
Total liabilities and net assets	<u>\$ 26,176</u>	<u>\$ 85,341,023</u>	<u>\$ 5,712,083</u>	<u>\$ 91,079,282</u>	<u>\$ 14,433</u>	<u>\$ 72,607,706</u>	<u>\$ 4,853,425</u>	<u>\$ 77,475,564</u>

STATE OF DELAWARE
DRINKING WATER
REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY CLASSIFICATION
YEARS ENDED JUNE 30, 2010 AND 2009

	2010				2009			
	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 - loans	\$ -	\$ 944,914	\$ -	\$ 944,914	\$ -	\$ 764,576	\$ -	\$ 764,576
Interest income - administrative fees	-	-	944,914	944,914	-	-	764,576	764,576
Loan origination fees	-	20,969	(81)	20,888	-	(13,667)	409,104	395,437
	-	965,883	944,833	1,910,716	-	750,909	1,173,680	1,924,589
OPERATING EXPENSES								
Salaries and related benefits	608,877	-	-	608,877	623,166	-	-	623,166
Contract services	919,452	24,200	-	943,652	617,769	-	-	617,769
Indirect costs	52,084	-	-	52,084	46,667	-	-	46,667
Subgrants	859,616	-	-	859,616	1,085,038	-	-	1,085,038
Supplies	30,133	-	-	30,133	38,305	-	-	38,305
Equipment	13,956	-	-	13,956	4,137	-	-	4,137
Training	(6,000)	-	-	(6,000)	30,940	-	-	30,940
Travel	6,767	-	-	6,767	16,342	-	-	16,342
Loans made	-	12,891,950	151,520	13,043,470	-	8,023,059	-	8,023,059
	2,484,885	12,916,150	151,520	15,552,555	2,462,364	8,023,059	-	10,485,423
<u>Adjustments to Reconcile</u>								
<u>Reimbursable Expenditures</u>								
<u>to Operating Expenses</u>								
Less: Loans made	-	(13,043,470)	-	(13,043,470)	-	(8,023,059)	-	(8,023,059)
TOTAL OPERATING EXPENSES	2,484,885	(127,320)	151,520	2,509,085	2,462,364	-	-	2,462,364
OPERATING INCOME (LOSS)	(2,484,885)	1,093,203	793,313	(598,369)	(2,462,364)	750,909	1,173,680	(537,775)
NONOPERATING REVENUE								
Interest income - Cash	-	143,540	65,345	208,885	-	256,227	109,264	365,491
Contributions - EPA	2,484,885	10,670,053	-	13,154,938	2,462,364	6,305,788	-	8,768,152
Contributions - State	-	1,567,730	-	1,567,730	-	1,444,840	-	1,444,840
	2,484,885	12,381,323	65,345	14,931,553	2,462,364	8,006,855	109,264	10,578,483
CHANGE IN NET ASSETS	-	13,474,526	858,658	14,333,184	-	8,757,764	1,282,944	10,040,708
Net assets, beginning of year	-	64,152,872	4,853,425	69,006,297	-	55,395,108	3,570,481	58,965,589
Net assets, end of year	\$ -	\$ 77,627,398	\$ 5,712,083	\$ 83,339,481	\$ -	\$ 64,152,872	\$ 4,853,425	\$ 69,006,297

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*

To the Management
Drinking Water Revolving Loan Fund
Dover, Delaware

We have audited the accompanying financial statements of Drinking Water Revolving Loan Fund (the Fund) of the State of Delaware as of and for the year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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.

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

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*

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

McBride, Shopa & Co

Wilmington, Delaware
September 29, 2010

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2010

CURRENT YEAR FINDINGS

None

CURRENT STATUS OF PRIOR YEAR FINDINGS

Finding 09-01

Criteria

Under the Cash Management Improvement Act of 1990, as amended by the Cash Management Improvement Act of 1992, codified at 31 USC 6501 and 31 USC 6503, the State of Delaware has entered into a Cash Management Improvement Act Agreement (Agreement) between the State of Delaware and the U.S. Secretary of the Treasury.

All CFDA numbers with expenditures greater than \$7.54 million are considered Subpart A programs under the jurisdiction of the Treasury-State agreement (note that there is no clustering for purposes of the Treasury-State agreement). All other CFDA numbers (and programs without CFDA numbers) are considered Subpart B programs. For Subpart B programs, “cash advances to the State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of the cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs” (31 CFR section 205.7 and 205.20). The State of Delaware as a practical matter generally applies the same funding techniques required for its subpart A programs to its subpart B programs.

The predominant funding technique for the State is the Composite Clearance method, which is defined in the agreement as follows:

“The State shall request funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid out for a series of disbursements, in accordance with the clearance pattern specified...The request shall be made in accordance with the appropriate Federal agency cut-off time specified...The amount of the request shall be the sum of the payments issued in the series of disbursements.”

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2010

A State must submit to [the federal government] an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends...a State must submit a description and supporting documentation for liability claims greater than \$5,000 (31CFR Part 205.26).

Condition

We noted that the amount of the drawdowns for the 2005 grant exceeded the supporting expenditure amounts in State's general ledger (DFMS).

Cause

Lack of management review to ensure drawdown amounts are properly reconciled to the disbursements per DFMS.

Effect

Amounts drawn down are not in compliance with the Agreement.

Recommendation

We recommend that the Department enhance its policies and procedures for drawing down federal funds in order to ensure they are in compliance with the terms of the Agreement.

Questioned Costs

The total amount of federal funds overdrawn is \$549,328.

Auditee Response

The apparent overdraw from the DFMS Fiscal Year 2006 (Federal Year 2005) is an accounting bubble which comes from doing expenditure corrections (EXs) back to older grants. When you look at all the grants as a total entitlement we are not over-drawn. When expenditures are EX(ed) back to an older grant that older grant is drawn from, many times we will EX from one year to another, then close the older grant and EX money again.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2010

Example: A Purchase Order (PO) is created for \$25,000 to fund activity "X". The oldest grant with money in the right set aside is FY 05, but it only has \$6,000 in it. The second oldest grant, FY 06, only has \$10,000 left on it. So the PO is created using Fiscal Year 2007 funds, the oldest grant with enough funds to cover the expense. When a Payment Voucher (PV) for \$8,000 clears to pay on the activity, money is taken from Fiscal Year 2007. Drinking Water creates an EX to use the oldest money taking \$6,000 from Fiscal Year 2005 and \$2,000 from Fiscal Year 2006, and crediting Fiscal Year 2007. At times, because the cycle of expenditures, expenditure corrections and draws it could appear as there is an over draw on one grant year, but when the fund is looked at as a whole, it is not over drawn at all.

The Division of Public Health requests all funds be encumbered on Purchase Orders to allow closer tracking of expenditures. This policy encourages management control and oversight, but creates challenges when you have multiple grants like Drinking Water. In an effort to expend the oldest money first, Drinking Water has to do expenditure corrections after a payment voucher has cleared back to the oldest grant with money in that appropriation. Because the amount of open grants, using the oldest money is a near constant shell game, although this year we have made tremendous strides forward in closing old grants.

Current Status

The timing differences were reconciled by management during fiscal year 2010, which coincided with the closing of the grant. All expenditures for existing federal grants were spent by management before reimbursements were requested.