

**State of Delaware
Delaware Water Pollution Control
Revolving Loan Fund
Dover, Delaware**

**Financial Statements
Years Ended June 30, 2013 and 2012**

Report Issued: March 4, 2014

Table of Contents

	Pages
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 8
Financial Statements	
Statement of Fund Net Assets	9
Statement of Revenues, Expenses and Changes in Fund Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12 - 23
Report Required by Government Auditing Standards	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i>	24
Schedule of Findings and Responses	26

Independent Auditor's Report

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

Report on the Financial Statements

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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



January 24, 2014

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Management's Discussion and Analysis
June 30, 2013

As management of the Delaware Water Pollution Control Revolving Loan Fund (the 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, 2013.

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 fiscal year 2013, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$33,958,176 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2013, DNREC has received Federal Capitalization Grants in an aggregate amount of \$205,984,510 since the inception of the Fund. As of June 30, 2013, the State of Delaware has provided State match funds of \$37,349,084 since the inception of the Fund. The combined total capitalization amount at June 30, 2013 was \$243,333,594 since the inception of the Fund. As of June 30, 2012, DNREC has received Capitalization Grants in an aggregate amount of \$172,026,334 since the inception of the Fund. As of June 30, 2012, the State of Delaware has provided State match funds of \$30,557,447 since the inception of the Fund. The combined total capitalization amount at June 30, 2012 is \$202,583,781 since the inception of the Fund.

The Fund realized operating income of \$641,364 in fiscal year 2013, which represents a decrease of \$429,687, or 40%, from fiscal year 2012. Contributions from the federal and State governments totaled \$6,266,410 in fiscal year 2013, a 10% decrease from fiscal year 2012.

Operating revenues for the year ended June 30, 2013 (including interest income on loans) decreased \$887,593 or 22% from the previous year. Operating revenues for the year ended June 30, 2012 (including interest income on loans) increased \$476,245 or 13% from the previous year.

**State of Delaware
Delaware Water Pollution Control Revolving Loan Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013**

Financial Highlights - Continued

Loans disbursements made totaled \$9,426,747 during the fiscal year 2013, which represents an increase of \$116,629 or 1% from fiscal year 2012. Loans collections totaled \$10,844,431 during fiscal year 2013 which represents a decrease of \$7,969,401 or 42% from 2012 primarily due to a large payment received in the prior year from one borrower.

Loan disbursements made totaled \$9,310,118 during the fiscal year 2012, which represents a decrease of \$51,284,912 or 85% from fiscal year 2011. The decrease in loan disbursements is due to the fact that ARRA grant awards were primarily expended during fiscal year 2011. Loan collections totaled \$18,813,832 during fiscal year 2012 which represents an increase of \$10,757,430 or 134% increase from 2011 primarily because of one large payment from one borrower.

Statement of Fund Net Assets

The following schedule summarizes the statements of net assets (thousands of dollars) of the Fund as of June 30, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Current assets			
Pooled cash and investments	\$ 75,079	\$ 56,440	\$ 41,060
Grants receivable	-	3,492	1,174
Administrative fees receivable	281	455	334
Interfund receivable	710	769	828
Interest receivable	288	305	337
Loans receivable, current	<u>10,772</u>	<u>11,696</u>	<u>12,048</u>
	87,130	73,157	55,781
Noncurrent assets			
Loans receivable, less current portion	<u>145,426</u>	<u>151,608</u>	<u>168,640</u>
Total assets	<u>\$ 232,556</u>	<u>\$ 224,765</u>	<u>\$ 224,421</u>

**State of Delaware
Delaware Water Pollution Control Revolving Loan Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013**

Statements of Fund Net Assets - Continued

Liabilities and net assets			
Current liabilities			
Vouchers payable	\$ -	\$ 5,100	\$ 3,358
Unearned revenue – state match	5,959	-	-
Interfund payable	<u>710</u>	<u>769</u>	<u>828</u>
Total liabilities	6,669	5,869	4,186
Net assets - unrestricted	<u>225,887</u>	<u>218,896</u>	<u>220,235</u>
Total liabilities and net assets	\$ <u>232,556</u>	\$ <u>224,765</u>	\$ <u>224,421</u>

The combined total net assets of the Fund for the year ended June 30, 2013 increased by \$6,991,210 from the fiscal year ended June 30, 2012, which decreased by \$1,339,008 or 1% from the fiscal year ended June 30, 2011.

Pooled cash and investments increased \$18,639,364 or 33% to \$75,079,798 during fiscal year 2013 primarily because of an increase in federal reimbursements and state match over the prior year.

Pooled cash and investments increased \$15,380,677 or 37% to \$56,440,434 during fiscal year 2012, primarily because of the increase in loan collections. The total decrease in liabilities of \$5,093,552 was due to the decrease in vouchers payable at the end of the fiscal year. Vouchers payable represent the amount of disbursements/payments which were requested/earned in the prior fiscal year, but not actually paid until the following fiscal year. The decrease is due to timing and does not reflect any long-term trend.

Unearned revenue – state match increased primarily due to the allocation of the Drinking Water State Revolving Fund (DWSRF) state match to the Fund in connection with EPA deobligation and awarding of the corresponding federal funds from DWSRF to the Fund.

**State of Delaware
Delaware Water Pollution Control Revolving Loan Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013**

Statement of Revenues, Expenses and Changes in Fund Net Assets

The following schedule summarizes the statements of revenues, expenses and changes in Fund net assets (thousands of dollars) for the fiscal years ended June 30, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Interest income on loans	\$ 1,486	\$ 1,921	\$ 1,660
Administrative fee revenue	1,645	2,098	1,882
Application fees	1	1	1
Other income	<u>1</u>	<u>1</u>	<u>1</u>
	<u>3,133</u>	<u>4,021</u>	<u>3,544</u>
Operating Expenses			
Reimbursable expenditures under operating grants			
Personnel costs	1,297	1,318	1,220
Travel	7	10	16
Contractual services	314	629	571
Supplies	15	23	29
Other expenses	38	94	352
Grants made	<u>821</u>	<u>876</u>	<u>1,092</u>
Total operating expenses	<u>2,492</u>	<u>2,950</u>	<u>3,280</u>
Operating income	641	1,071	264
Nonoperating revenues			
Interest income on deposits	299	268	341
Contributions, EPA	5,160	5,982	24,240
Contributions, State	1,106	953	1,984
Loan forgiveness and write-offs	<u>(215)</u>	<u>(9,613)</u>	<u>-</u>
	<u>6,350</u>	<u>(2,410)</u>	<u>26,565</u>
Change in net assets	6,991	(1,339)	26,829
Net assets - beginning	<u>218,896</u>	<u>220,235</u>	<u>193,406</u>
Net assets - ending	\$ <u>225,887</u>	\$ <u>218,896</u>	\$ <u>220,235</u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Management's Discussion and Analysis - Continued
June 30, 2013

Statement of Revenues, Expenses and Changes in Fund Net Assets - Continued

The Fund reported operating revenues of \$3,133,129 during fiscal year 2013, which represents a decrease of \$887,593 or 22% from fiscal year 2012. The Fund reported operating revenues of \$4,020,722 during fiscal year 2012, which represents an increase of \$476,245 or 13% from fiscal year 2011. The decrease in the current fiscal year is primarily a result of decreased loan interest and administrative fees, which were 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 decreases for the Fund, income from interest and administrative fees will also decrease. The Fund reported an overall increase of \$6,991,210 in total Fund net assets for the fiscal year ended June 30, 2013, and an overall decrease of \$1,339,008 in total net assets for the fiscal year ended June 30, 2012.

Federal grant revenue decreased by \$821,487 or 14% during fiscal year 2013 while the State match increased by \$153,036, or 16%.

Federal grant revenue decreased by \$18,258,753 or 75% during fiscal year 2012, as a result of decreased loan disbursements and the fact that ARRA funds were primarily expended during fiscal year 2011. The State match decreased by \$1,031,024, or 52%.

Total operating expenses decreased \$457,906 or 16% during fiscal year 2013, due to a decrease in grants made for personnel costs and other expenses paid out of the Nonfederal Administrative Fund. Total operating expenses decreased \$330,946 or 10% during fiscal year 2012, due to a decrease in both grants and other expenses paid out of the Federal Administrative Fund.

During 2013, the Fund only recognized nonoperating expenses of \$215,713 for ARRA loan forgiveness and write-offs compared to \$9,612,980 in 2012 for completed projects. Excluding the Fund's loan forgiveness of ARRA, the remaining nonoperating revenues were fairly consistent between 2013 and 2012.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Management's Discussion and Analysis - Continued
June 30, 2013

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:

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Statement of Fund Net Assets
June 30, 2013 and 2012

	2013				2012			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
Current assets								
Pooled cash and investments	\$ -	\$ 66,830,727	\$ 8,249,071	\$ 75,079,798	\$ -	\$ 48,342,509	\$ 8,097,925	\$ 56,440,434
Grants receivable	-	-	-	-	-	3,491,996	-	3,491,996
Administrative fees receivable	-	-	281,357	281,357	-	-	454,990	454,990
Interfund receivable	-	-	709,671	709,671	-	-	769,139	769,139
Interest receivable	-	287,715	-	287,715	-	305,112	-	305,112
Loans receivable - current	-	10,772,408	-	10,772,408	-	11,695,963	-	11,695,963
Total current assets	-	77,890,850	9,240,099	87,130,949	-	63,835,580	9,322,054	73,157,634
Noncurrent assets								
Loans receivable, less current portion	-	145,425,562	-	145,425,562	-	151,607,963	-	151,607,963
Total assets	\$ -	\$ 223,316,412	\$ 9,240,099	\$ 232,556,511	\$ -	\$ 215,443,543	\$ 9,322,054	\$ 224,765,597
Current liabilities								
Vouchers payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,093,552	\$ 6,646	\$ 5,100,198
Deferred revenue - state match	-	5,959,370	-	5,959,370	-	-	-	-
Interfund payable	-	709,671	-	709,671	-	769,139	-	769,139
Total liabilities	-	6,669,041	-	6,669,041	-	5,862,691	6,646	5,869,337
Net assets-unrestricted	-	216,647,371	9,240,099	225,887,470	-	209,580,852	9,315,408	218,896,260
Total liabilities and net assets	\$ -	\$ 223,316,412	\$ 9,240,099	\$ 232,556,511	\$ -	\$ 215,443,543	\$ 9,322,054	\$ 224,765,597

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2013 and 2012

	2013				2012			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
Operating revenues								
Interest income on loans	\$ -	\$ 1,485,762	\$ -	\$ 1,485,762	\$ -	\$ 1,921,141	\$ -	\$ 1,921,141
Administrative fee revenue	-	-	1,645,185	1,645,185	-	-	2,097,594	2,097,594
Application fees	-	1,072	-	1,072	-	667	-	667
Other income	-	1,110	-	1,110	-	1,320	-	1,320
Total operating revenues	-	1,487,944	1,645,185	3,133,129	-	1,923,128	2,097,594	4,020,722
Operating expenses								
Reimbursable expenditures under operating grants:								
Personnel costs	662,640	-	633,770	1,296,410	389,801	-	928,473	1,318,274
Travel	-	-	6,709	6,709	1,272	-	8,191	9,463
Contractual services	32,170	474	281,111	313,755	2,167	579	626,619	629,365
Supplies and office expenses	-	-	15,245	15,245	-	-	22,781	22,781
Other expenses	35,611	162	2,588	38,361	17,476	-	76,229	93,705
Grants made	-	-	821,285	821,285	-	-	876,083	876,083
Total operating expenses	730,421	636	1,760,708	2,491,765	410,716	579	2,538,376	2,949,671
Operating income (loss)	(730,421)	1,487,308	(115,523)	641,364	(410,716)	1,922,549	(440,782)	1,071,051
Nonoperating revenues and expenses								
Interest income on deposits	-	258,935	40,214	299,149	-	218,933	49,127	268,060
Contributions:								
EPA	609,820	4,550,216	-	5,160,036	341,998	5,639,525	-	5,981,523
State	120,601	985,773	-	1,106,374	67,590	885,748	-	953,338
Revolving loan fund	-	-	-	-	-	-	-	-
Loan forgiveness and write-offs	-	(215,713)	-	(215,713)	-	(9,612,980)	-	(9,612,980)
Transfers	-	-	-	-	-	-	-	-
Total nonoperating revenues and expenses	730,421	5,579,211	40,214	6,349,846	409,588	(2,868,774)	49,127	(2,410,059)
Change in net assets	-	7,066,519	(75,309)	6,991,210	(1,128)	(946,225)	(391,655)	(1,339,008)
Net assets - beginning - unrestricted	-	209,580,852	9,315,408	218,896,260	1,128	210,527,077	9,707,063	220,235,268
Net assets - end - unrestricted	\$ -	\$ 216,647,371	\$ 9,240,099	\$ 225,887,470	\$ -	\$ 209,580,852	\$ 9,315,408	\$ 218,896,260

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Statement of Cash Flows

	Year Ended	
	June 30,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Loan collections	\$ 10,844,431	\$ 18,813,832
Interest received from borrowers	1,503,159	1,953,035
Administrative fee revenue	1,818,818	1,976,550
Application fees and other revenue	2,182	1,987
Loan disbursements	(9,426,747)	(9,310,118)
General expenses paid	(2,119,404)	(2,940,221)
Net cash provided by operating activities	<u>2,622,439</u>	<u>10,495,065</u>
Cash flows from noncapital financing activities		
Grants received from EPA	8,070,032	4,072,939
State portion funded by recipient	7,647,744	544,613
Net cash provided by noncapital financing activities	<u>15,717,776</u>	<u>4,617,552</u>
Cash flows from investing activities		
Interest on deposits	<u>299,149</u>	<u>268,060</u>
Net increase in pooled cash and investments	18,639,364	15,380,677
Pooled cash and investments - beginning of year	<u>56,440,434</u>	<u>41,059,757</u>
Pooled cash and investments - end of year	<u><u>\$ 75,079,798</u></u>	<u><u>\$ 56,440,434</u></u>
Reconciliation of net operating income to cash used in operating activities		
Cash flows from operating activities:		
Operating income	\$ 641,364	\$ 1,071,051
Adjustments to reconcile operating income to net cash provided by operating activities:		
Administrative fees receivable	173,633	(121,044)
Interest receivable	17,397	31,894
Loans receivable	6,890,243	7,770,799
Vouchers payable	(5,100,198)	1,742,365
Decrease in deferred income	-	-
Net cash provided by operating activities	<u>\$ 2,622,439</u>	<u>\$ 10,495,065</u>
Schedule of noncash investing activities		
Loan forgiveness and write-offs	<u>\$ (215,713)</u>	<u>\$ (9,612,980)</u>

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements
June 30, 2013 and 2012

Note A - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Delaware Water Pollution Control Revolving Loan Fund (the Fund) 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.

1. 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 (SRF) federal assistance program. The Fund's enabling legislation empowers the Department of Natural Resources and Environmental Control (DNREC) to administer the Fund.

2. 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 (the State) 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 Nonfederal Administrative Fund, which accounts for monies that the 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 CFR Part 35 Guidance on Fees Charged by State to Recipients of Clean Water State Revolving Fund Program Assistance.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note A - Summary of Significant Accounting Policies - Continued

3. Measurement Focus and Basis of Accounting

The accompanying financial statements of the Fund have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with United States generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The Fund's activities are financed and operated as an enterprise fund. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Fund's policy to first apply the expense towards restricted resources and then toward unrestricted resources.

The Fund has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Fund has elected not to follow subsequent private-sector (FASB) guidance.

4. 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 funds received in advance of being earned are considered unearned 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 Fund net assets.

Operating revenues include those that result from the Fund's lending activities. Nonoperating revenues include those from noncapital financing and investing activities.

5. Pooled Cash and Investments

Pooled cash and investments consist of the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note A - Summary of Significant Accounting Policies - Continued

6. 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.

Note B – Pooled Cash and Investments

Pooled Cash and Investments

Pooled cash and investments as reported on the statement of net assets represent 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. Interest income is allocated to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average monthly spending authority. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized by risk because they are not evidenced by securities that exist in a physical or book-entry form.

The Cash Management Policy Board

The State's 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 United States Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

**State of Delaware
Delaware Water Pollution Control Revolving Loan Fund**

**Notes to Financial Statements - Continued
June 30, 2013 and 2012**

Note B – Pooled Cash and Investments - Continued

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 and “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:

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- Securities of a political subdivision of the State with a Moody’s Investors Service rating of “A” or better.

Since the Fund’s pooled cash and investments are managed by the Treasurer, the Fund is unable to control compliance with the collateralization requirements or determine if these requirements have been met.

The policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

Pooled Cash and Investments - Federal Administrative Fund

The pooled cash and investments in the Federal Administrative Fund represent 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.

**State of Delaware
Delaware Water Pollution Control Revolving Loan Fund**

**Notes to Financial Statements - Continued
June 30, 2013 and 2012**

Note B - Pooled Cash and Investments - Continued

Pooled Cash and Investments - Capital Reserve Loan Fund

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

Pooled Cash and Investments - Administrative Fees

The pooled cash and investments from administrative fees on municipal loans is recorded in the Nonfederal Administrative Fund, and is then available to the State for use at its discretion.

Note C - Loans Receivable

The loans receivable account is made up of the following major categories for the years ended June 30:

	2013	2012
Municipal loans		
Sussex County Council	\$ 56,438,268	\$ 60,339,800
City of Wilmington	7,052,503	8,329,001
City of Seaford	4,604,414	5,915,714
Kent County	23,166,932	23,068,320
City of Milford	1,833,642	1,964,820
New Castle County	2,331,882	2,362,165
Town of Selbyville	2,199,029	2,349,239
Town of Laurel	3,141,667	3,419,663
City of Dover	6,372,454	6,011,963
Camden Wyoming Sewer & Water Authority	186,328	195,642
Town of Millsboro	12,414,948	12,268,721
Town of Bridgeville	2,393,504	2,537,634
City of Lewes	10,001,812	10,591,808
Town of Delmar	1,177,273	1,235,695
Town of Georgetown	3,777,645	4,735,653
City of Harrington	3,048,436	3,192,675
Dewey Beach	406,537	450,000
Town of Middletown	262,328	260,000
Town of Smyrna	2,495,624	1,871,798
City of Seaford	1,491,229	-
City of New Castle	250,251	-
Total municipal loans	\$ 145,046,706	\$ 151,100,311

**State of Delaware
Delaware Water Pollution Control Revolving Loan Fund**

**Notes to Financial Statements - Continued
June 30, 2013 and 2012**

Note C - Loans Receivable - Continued

ARRA loans		
Sussex County Council	\$ 6,535,792	\$ 6,834,025
City of New Castle	180,121	661,250
Kent County	<u>800,627</u>	<u>627,659</u>
Total ARRA loans	<u>7,516,540</u>	<u>8,122,934</u>
Septic Rehabilitation Program	3,132,568	3,382,801
Agriculture Nonpoint Source Loans	357,345	536,610
Dairy Loan Program	53,200	50,600
Underground Storage Tank Program	34,931	41,939
Expanded Agriculture Loan Program	<u>56,680</u>	<u>68,731</u>
Total loans	<u>\$156,197,970</u>	<u>\$163,303,926</u>
Current portion	\$ 10,772,408	\$ 11,695,963
Long-term portion	<u>145,425,562</u>	<u>151,607,963</u>
Total loans	<u>\$156,197,970</u>	<u>\$163,303,926</u>

Interest charged on these loans ranges from 0% to 6.0% for both 2013 and 2012. 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, 2013 and 2012, as there were no material delinquent loan balances or loan defaults during the year. During 2013 and 2012, several loan balances were forgiven or written off as part of the terms of the loan agreements. Total loans forgiven or written off during 2013 and 2012 were \$215,713 and \$9,612,980, respectively. There are no further loan balances eligible for forgiveness as of June 30, 2013.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note D - Significant Source of Revenue - State Revolving Loan 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, 2013) were \$243,333,594, which includes the federal portion of \$205,984,510, or five-sixths, and the State matching portion of \$37,349,084, 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 A, 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, 2013	\$205,984,510	\$37,349,084	\$243,333,594
Awards expended through June 30, 2013	\$172,491,709	\$30,724,889	\$203,216,598

Note E - Deobligation of federal funds between the Fund and the Drinking Water State Revolving Fund and corresponding State match

On September 4, 2012, the EPA deobligated \$27,050,177 of the Drinking Water State Revolving Fund (DWSRF) federal capitalization grant and awarded it to the Fund. As part of the deobligation, \$5,410,035 initially appropriated to the DWSRF, which represented the required 20% state match, was also appropriated to the Fund. The \$5,410,035 and the Fund's other remaining state match of \$549,335 are included in the Fund's Statement of Net Position as Unearned revenue – state match as of June 30, 2013.

In accordance with the deobligation and the Fund's Intended Use Plan (Plan), the total \$32,460,212, described above, will be returned to the DWSRF when they are needed for Drinking Water commitments. The transfer will occur at management's discretion to facilitate cash flow for loan commitments incurred by DWSRF. When funds are transferred between the Fund and DWSRF, the funds will be accounted for as transfers out and in, respectively.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note F - Pension Plan

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$109,153 for 2013 and \$95,695 for 2012 is included in the financial statements as personnel costs.

Detailed information regarding this Plan is available in the Delaware Code and the Rules and Regulations of the Board of Pension Trustees. Certain significant Plan provisions include:

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

Post-2011 Employee - Post-2011 employee shall mean an employee, as defined in 29 Del C., Section 5501(e), who is first employed by the State on or after January 1, 2012.

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.

For post-2011 employees, final average compensation per House Bill 81 shall include:

1. 1/36 of the compensation, minus overtime payments, paid to an employee during any period of 36 consecutive months or any 36 months comprised of three periods of 12 consecutive months in that employee's years of service credited under paragraphs (d)(1), (2), and #3 of this section in which that employee's compensation was highest, or the average monthly compensation paid to an employee during that period if such period is less than 36 months, plus
2. The dollar amounts of awards received under the "Teacher of the Year" and "Delaware Award for Excellence and Commitment in State Service" programs, plus
3. The total dollar amount of final lagged payments for credited service received by employees as defined under Section 2712 of Title 29.

Vesting - Five (5) years of credited service. For Post-2011 employees, ten years of credited service.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note F - Pension Plan - Continued

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.

For Post-2011 employees, age 65 with ten years of credited service, exclusive of service credited under 29 Del C § 5501(d)(12); age 60 with 20 years of credited service, exclusive of service credited under 29 Del C § 5501(d)(12); 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 the employee is receiving a pension, the eligible survivor receives 50% (or 75% with 3% reduction of benefit). If the employee is active with at least five (5) years of credited service, the eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions - Employer - 3% of earnings in excess of \$6,000. For Post-2011 employees, 5% of earnings in excess of \$6,000.

Death Benefit - \$7,000 per member.

The State does not maintain the Plan information by agency and, therefore, the Fund's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily available.

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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note G - Commitments and Contingencies

1. Operating Lease

Beginning July 1, 1997, DNREC entered into a lease for office space, on behalf of the Fund, of which the Fund currently pays 100%. The operating lease is on a month to month basis. Rent expense, which is included in the financial statements as contractual services, was \$47,462 in 2013 and \$47,883 in 2012.

2. Loan Commitments

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, 2013, there were binding commitments of \$1,000,000.

3. 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 allowance costs related to the program. Costs are subject to review by the EPA. Management does not believe there are any adjustments that could arise from disallowed costs that would materially impact the Fund's financial statements.

4. Deobligation of the Drinking Water State Revolving Fund Grants

As described in Note E, a total of \$32,460,212 will be transferred to the DWSRF when they are needed for loan commitments incurred by DWSRF.

Note H - Risk Management

The Fund is insured under the State'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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note H - Risk Management- Continued

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, 2013, there were no outstanding or pending claims against the Fund.

Note I - American Recovery and Reinvestment Act of 2009

During fiscal year 2009, the Fund was awarded additional funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009 in the amount of \$19,239,100. The Fund began processing various loan applications and began disbursing the funds in fiscal year 2011. The loan agreements state that each loan will be granted principal forgiveness of between 25% and 100% of the loan amount upon completion of the project. During fiscal year 2012, the Fund forgave \$9,612,980 in ARRA loans.

Note J - Nonfederal Administrative Fund

The Nonfederal Administrative Fund account is used to supplement administrative expenses of the Fund and other water quality improvement expenses.

The Nonfederal Administrative Fund will also continue to fund the Septic Extended Funding Option (SEFO) Fund. The SEFO Fund provides grants to individuals or entities which do not qualify for a Revolving Loan.

During the fiscal year ended June 30, 2013, the Nonfederal Administrative Fund funded the following:

SEFO grants	\$ 821,285
Personnel costs for other water quality areas	<u>501,663</u>
Total	<u>\$ 1,322,948</u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note K - 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 January 24, 2014, which is the date the financial statements were available to be issued.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Water Pollution Control Revolving Loan Fund (the Fund) of the State of Delaware, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated January 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Gunnip & Company LLP". The signature is written in a cursive, flowing style.

January 24, 2014

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Schedule of Findings and Responses

Current Year Findings

No current year findings were identified.

Prior Year Finding

Finding 12-01:

Condition:

Similar to the prior year, there were a number of adjustments that were required to be made as part of the audit.

Because of some lingering issues from fiscal year 2011 conversion to the State's new accounting system, First State Financials (FSF), the entries proposed by the Fund's predecessor auditors and turnover in the accounting area, there were still some adjustments necessary to ensure the Fund's Peachtree accounts were properly reflective of an accrual basis of accounting.

The new accountant was able to properly reconcile the FSF activity to Peachtree for fiscal year 2012, but did not have the detailed support to ensure that the entries proposed by the predecessor auditor were properly incorporated into the net asset balances being brought forward to fiscal year 2012.

Criteria:

Proper internal control procedures require that the Fund's general ledger and corresponding Peachtree detail proper reflect the entries proposed by the predecessor auditor to ensure that Fund's net asset balances are reconciled to the Fund's audited financial statements and current activity has been properly recorded.

Cause:

Based on turnover in the accounting area, the predecessor auditors proposed entries were not properly reflected in the Fund's general ledger.

Effect:

A number of accounts in the Peachtree General Ledger did not properly reflect the entries proposed by the predecessor auditor and those entries and related general ledger accounts had to be analyzed and subsequently adjusted.

Recommendation:

We recommend that DNREC ensure it properly understands all proposed entries booked to the Fund's financial statements and ensure that such entries are in turn properly reflected in the Fund's Peachtree general ledger, as necessary.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Schedule of Findings and Responses

Management's Response:

Management for the Delaware Water Pollution Control Revolving Fund (WPCRF) have reviewed Audit Finding 12-01, and offer the following comments and corrective action plan that have already been implemented.

It is acknowledged that a number of adjustments were required for the FY 2012 audit due to issues associated with the conversion to the State's new accounting system; entries proposed by the Fund's predecessor auditor; and turnover in WPCRF accounting staff

Implemented Corrective Action Plan

The State's new accounting system has been successfully implemented, and appropriate accounting staffs for the WPCRF have received all necessary training. In 2012, DNREC hired an Accountant for the WPCRF that has state accounting training and experience, and working knowledge and experience with general ledger and proprietary fund accounting. This person is responsible for monthly reconciliation of all WPCRF accounts and records, and providing monthly reconciliation reports to the WPCRF Administrator. All accounting adjustments recommended by auditors for the WPCRF are reviewed by the program Accountant, Fund Administrator, and appropriate staff prior to acceptance.

Current Status:

The Fund's management implemented the correction action plan described above and no similar issues were noted during the current year's audit.