

**State of Delaware Drinking Water Revolving Loan Fund
Financial Statements
June 30, 2014 and 2013
Report Issued: February 6, 2015**

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Zelenkofske Axelrod LLC

Independent Auditors' Report

To the Management of the State of Delaware Drinking Water Revolving Loan Fund
Dover, DE

We have audited the accompanying statements of net position of the State of Delaware Drinking Water Revolving Loan Fund (Fund) as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years ended June 30, 2014 and 2013, and the related notes to those financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting 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 statement audits contained *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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years ended June 30, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

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Zelenkofske Axelrod LLC

Emphasis of Matters

As discussed in Note 1, the financial statements present only the State of Delaware Drinking Water Revolving Loan Fund and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2014 and 2013, and the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Principles

As discussed in Note 1 to the financial statements, during the fiscal year ending June 30, 2014, the Fund adopted the provisions of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", Statement No. 66, "*Technical Corrections – 2012 – An Amendment of GASB*", Statement No. 67, "*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*", and Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

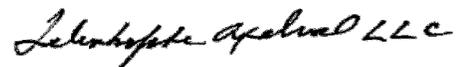
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Delaware Drinking Water Revolving Loan Fund financial statements as a whole. The Schedules of Fund Net Position by Fund, Schedules of Revenues, Expenses and Changes in Fund Net Position by Fund, Schedules of Fund Net Position by Classification, Schedules of Revenues, Expenses, Changes in Fund Net Position by Classification are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Fund Net Position by Fund, Schedules of Activities by Fund, Schedules of Fund Net Position by Classification, and Schedules of Activities by Classification on pages 29 through 34, respectively, are fairly stated in all material respects in relation to the financial statements as a whole.

Zelenkofske Axelrod LLC

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015, on our consideration of the State of Delaware Drinking Water Revolving Loan 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.



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
February 3, 2015

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2014 and 2013**

As management of the State of Delaware Drinking Water 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 years ended June 30, 2014 and June 30, 2013. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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

Overview of the Financial Statements

The Fund was established through subsection 15 of 29 Del. C., c. 79, and 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 Federal §1452 of the Safe Drinking Water Act (the Act). The Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received.

Beginning July 1, 2013, the Fund is administered by the Department of Natural Resources and Environmental Control (DNREC). The primary activities include making loans, providing direct assistance, and managing the Fund to meet the objectives of the Act.

The Fund consists of five sub-funds, each of which is considered a separate accounting entity. The primary activity of the Loan Fund, the main sub-fund is the issuance of loans. The remaining four set-aside sub-funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenses for specific purposes.

The Fund's activities are accounted for as a distinct operating unit within the DNREC. 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 that are 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.

Financial Highlights (Numbers in Thousands)

The Fund realized a change in net position of \$9,676.6 in fiscal year 2014, which represents an increase of 7.5%. The increase in net position in 2014 was smaller due to decreased loan disbursement activity. The Fund realized a change in net position of \$18,060.9 in fiscal year 2013, which represents an increase of 27.3% from the change in net position of \$14,184.4 in fiscal year 2012, due to increased loan activity and operating income from the Fund.

Grant revenue recognized from the federal and state governments totaled \$8,572.1 in fiscal year 2014, a 42.9% decrease from fiscal year 2013, largely due to decreased Federal grant revenues. Grant revenue recognized from the federal and state governments totaled \$20,004.4 in fiscal year 2013, a 32.4% increase from fiscal year 2012, due to increased State match revenues, and a decrease in American Recovery Act (ARRA) activity for special projects.

Loans made during 2014 totaled \$7,056.8, which represents a decrease of \$12,041.9 from the previous year. This decrease of 63.1% was caused by decreased draws on existing loans from municipalities and others through the State. Loans made totaled \$19,098.7 during fiscal year 2013, which represents an increase of \$3,414.1 from the previous year. This increase of 21.8% was caused by increased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$4,360.2 during 2014. This represents an overall decrease of \$93.8, 2.1%, from the prior year. Loan collections (principal) totaled \$4,454.0 during fiscal year 2013. This represents an overall increase of \$1,271.3, 39.9%, from 2012 due to increased borrowings and principal payments by loan recipients.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2014 and 2013 increased by \$9,676.6 and \$18,060.9, respectively. The following condensed statement of net position (Table 1) shows a summary of changes in dollars.

During fiscal year 2014, cash, short-term, and long-term investments increased in aggregate by approximately \$7,775.5, 33.4%, to \$31,047.2 based on a decrease in loans made to grants received from the EPA and State, as well as loan origination and administration fees received. Loans receivable increased, by \$2,417.7, 2.3%, to \$107,350.8, mostly as a result of increased draws in existing loans from municipalities. Federal grants receivable increased by approximately \$260.2, 301.5%, mostly due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2014.

During fiscal year 2013, cash, short-term, and long-term investments decreased in aggregate by approximately \$1,975.9, 7.8%, to \$23,271.7 based on an increase in loan repayments, grants revenues, as well as administration fees received but decreased due to a transfer of the administration of an Environmental Protection Agency (EPA) grant to the Department of Natural Resources and Environmental Control (DNREC) in December 2012. Loans receivable increased, by \$13,847.3, 15.2%, to \$104,933.1, mostly as a result of increased draws on existing loans from municipalities. Federal grants receivable decreased by approximately \$84.9, 49.6%, mostly due to the timing of reimbursements requests from the EPA during the fiscal year ended June 30, 2013.

Vouchers payable increased by \$349.2, or 426.4% from the prior year as a result of timing of disbursements at year end for 2014. Vouchers payable in 2013 decreased by \$32.6 over 2012 for the same reason.

Unearned revenue from the State match increased by \$407.8, 100%, as the Fund received committed State grant funding, which was disbursed as loan proceeds to municipalities.

Table 1
Statement of Net Position
(Thousands of Dollars)

	2014	2013	2012
Current Assets			
Cash and cash equivalents	\$ 4,409.3	\$ 4,840.5	\$ 9,644.6
Investments - short-term	8.3	15,755.0	13,709.4
Loans, current portion	5,241.0	4,226.8	4,379.4
Loan interest	685.1	704.9	710.5
Federal grants receivable	346.5	86.3	171.2
Total Current Assets	10,690.2	25,613.5	28,615.1
Noncurrent Assets			
Investments - long-term	26,629.6	2,676.2	1,893.6
Loans, net of current portion	102,109.8	100,706.3	86,706.4
Total Noncurrent Assets	128,739.4	103,382.5	88,600.0
Total Assets	\$ 139,429.6	\$ 128,996.0	\$ 117,215.1
Current Liabilities			
Vouchers payable	\$ 431.1	\$ 81.9	\$ 114.5
Total Current Liabilities	431.1	81.9	114.5
Noncurrent Liabilities			
Unearned revenue - state match	407.8	-	6,247.4
Total Liabilities	838.9	81.9	6,361.9
Net Position - Restricted	138,590.7	128,914.1	110,853.2
Total Liabilities and Net Position	\$ 139,429.6	\$ 128,996.0	\$ 117,215.1

Statement of Revenues, Expenses, and Changes in Net Position (Numbers in Thousands)

The following schedule summarizes the statement of revenue, expenses, and changes in net position of the Fund for the fiscal years ended June 30, 2014, 2013, and 2012 (Table 2).

Federal grant revenue decreased by \$8,881.1, 54.9%, and the State match revenue decreased by \$2,551.2, 66.7%, during fiscal year 2014 as a lower volume of loans were due to an overall decrease in grants compared to the prior years where funding from ARRA and deobligated funds were utilized. Federal grant revenue increased by \$1,786.3, 12.4%, and the State match revenue increased by \$3,106.8, 431.0%, during fiscal year 2013 as a higher volume of loans were from funds requiring a State match compared to the prior years where funding from ARRA was utilized.

Interest income from cash deposits decreased by \$49.1, 41.8% during fiscal year 2014, \$16.4, 12.2%, during fiscal year 2013, due mainly to decreases in interest rates utilized by the Treasurer of the State of Delaware.

Operating expenses decreased by approximately \$1,527.3, 36.8%, due mainly to a transfer of funds to DNREC from the Fund's nonfederal administrative fund and decreased overall grant activity resulting in decreased contractual services, personnel costs (salaries and related benefits) and equipment, offset by a decrease in subgrants, 100%, due mainly to a transfer of funds to DNREC from the Fund's nonfederal administrative fund.

In 2013, operating expenses increased by approximately \$1,689.1, 68.7%, due mainly to a transfer of funds to DNREC from the Fund's nonfederal administrative fund and increased overall grant activity resulting in increased contractual services, personnel costs (salaries and related benefits) and equipment, offset by a decrease in subgrants.

Table 2
Statement of Revenues, Expenses, and Changes in Net Position
(Thousands of Dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues			
Interest income - loans and administrative fees	\$ 3,899.6	\$ 2,874.8	\$ 2,509.0
Loan origination fees	36.9	26.0	89.3
Grant revenue	7,295.6	16,176.7	14,390.4
ARRA loan forgiveness	-	(15.6)	(1,183.4)
Principal forgiveness	(278.9)	(797.4)	-
Writeoff of receivables	-	-	(16.0)
State match	<u>1,276.5</u>	<u>3,827.7</u>	<u>720.9</u>
Total Operating Revenues	12,229.7	22,092.2	16,510.2
Operating Expenses			
Grant to other funds	-	1,195.4	-
Salaries and related benefits	1,452.1	985.2	928.0
Contract services	551.1	691.0	534.2
Indirect costs	329.4	101.7	45.5
Subgrants	-	802.7	828.0
Supplies	35.6	91.0	55.0
Equipment	-	135.0	3.8
Travel	13.0	5.9	15.5
Training	<u>240.4</u>	<u>141.0</u>	<u>49.8</u>
Total Operating Expenses	<u>2,621.6</u>	<u>4,148.9</u>	<u>2,459.8</u>
Operating Income	9,608.1	17,943.3	14,050.4
Nonoperating Revenue			
Interest income - cash deposits	<u>68.5</u>	<u>117.6</u>	<u>134.0</u>
Total Nonoperating Revenue	<u>68.5</u>	<u>117.6</u>	<u>134.0</u>
Change in Net Position	9,676.6	18,060.9	14,184.4
Net Position - Beginning of Year	<u>128,914.1</u>	<u>110,853.2</u>	<u>96,668.8</u>
Net Position - End of Year	<u>\$ 138,590.7</u>	<u>\$ 128,914.1</u>	<u>\$ 110,853.2</u>

Request 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, DE 19901

State of Delaware Drinking Water Revolving Loan Fund
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,409,260	\$ 4,840,521
Investments - short-term	8,276	15,754,963
Loans receivable	5,241,028	4,226,804
Interest receivable	685,064	704,890
Federal grants receivable	346,589	86,319
Total Current Assets	10,690,217	25,613,497
Noncurrent Assets:		
Investments - long-term	26,629,614	2,676,249
Loans receivable	102,109,737	100,706,265
Total Noncurrent Assets	128,739,351	103,382,514
Total Assets	\$ 139,429,568	\$ 128,996,011
Liabilities		
Current Liabilities:		
Vouchers payable	\$ 431,124	\$ 81,879
Total Current Liabilities	431,124	81,879
Noncurrent Liabilities:		
Unearned revenue - state match	407,741	-
Total Liabilities	838,865	81,879
Net Position		
Net position - restricted	138,590,703	128,914,132
Total Liabilities and Net Position	\$ 139,429,568	\$ 128,996,011

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 Net Position
June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Interest income - loans	\$ 1,949,775	\$ 1,437,416
Interest income - administrative fees	1,949,775	1,437,416
Loan origination fees	36,943	26,000
Grant revenue	7,295,605	16,176,725
ARRA loan forgiveness	-	(15,614)
Principal forgiveness	(278,874)	(797,431)
State match	1,276,459	3,827,737
	12,229,683	22,092,249
Total Operating Revenues		
Operating Expenses		
Grant to WPCRLF	-	1,195,487
Salaries and related benefits	1,452,068	985,201
Contract services	551,105	690,963
Indirect costs	329,390	101,671
Subgrants	-	802,653
Supplies	35,573	91,039
Equipment	-	135,010
Training	240,495	141,025
Travel	13,019	5,881
	2,621,650	4,148,930
Total Operating Expenses		
Operating Income	9,608,033	17,943,319
Nonoperating Revenues		
Interest income - cash accounts	68,538	117,570
	68,538	117,570
Total Nonoperating Revenues		
Change in Net Position	9,676,571	18,060,889
Net Position - Beginning of Year	128,914,132	110,853,243
Net Position - End of Year	\$ 138,590,703	\$ 128,914,132

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

State of Delaware Drinking Water Revolving Loan Fund
Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash flow from operating activities		
Loan repayments	\$ 4,360,257	\$ 4,453,984
Interest income - loans	1,959,688	1,440,213
Interest income - administrative fees	1,959,688	1,440,213
Loan origination fees	36,943	26,000
Grants received from EPA	7,035,335	16,246,006
Grants received from the State of Delaware	1,684,200	1,795,000
Loan disbursements	(7,056,827)	(19,098,717)
Transfer of grant to WPCRLF	-	(5,410,035)
Salaries and related benefits paid	(1,452,068)	(985,201)
General expenses paid	(820,337)	(2,000,877)
	7,706,879	(2,093,414)
Net cash provided (used) by operating activities		
Cash flow from investing activity		
Proceeds from sales and purchases of investments - net	(8,206,678)	(2,828,209)
Interest received from cash deposits	68,538	117,570
	(8,138,140)	(2,710,639)
Net cash used in investing activity		
Decrease in cash and cash equivalents	(431,261)	(4,804,053)
Cash and cash equivalents - beginning of year	4,840,521	9,644,574
Cash and cash equivalents - end of year	\$ 4,409,260	\$ 4,840,521
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 9,608,033	\$ 17,943,319
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Increase in loans receivable	(2,417,696)	(13,847,302)
(Increase)/decrease in federal grants receivable	(260,270)	84,895
Increase/(decrease) in unearned revenue - state match	407,741	(6,247,285)
Decrease in interest and dividends receivable	19,826	5,594
Increase/(decrease) in vouchers payable	349,245	(32,635)
	7,706,879	(2,093,414)
Net cash provided (used) by operating activities	\$ 7,706,879	\$ (2,093,414)

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the 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.

A. General Background

The Fund was established through 29 Del. C., c. 79, which 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; Delaware Department of Natural Resources and Environmental Control (DNREC) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DNREC'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 Act).

The Fund is funded through federal capitalization grants as established under Federal §1452 of the Act. The Act requires the State to provide matching funds equal to 20% of federal funds received. The grants were issued as follows:

<u>Grant Year</u>	<u>Total Available Funding</u>	<u>Federal Portion</u>	<u>State Portion</u>
1997-2008	\$ 108,721,429	\$ 90,601,191	\$ 18,120,238
2009 *	2,721,588	2,267,990	453,598
2010 *	2,206,281	1,838,567	367,714
2011	11,301,600	9,418,000	1,883,600
2012	10,770,000	8,975,000	1,795,000
2013	10,105,200	8,421,000	1,684,200
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$165,326,098</u>	<u>\$141,021,748</u>	<u>\$24,304,350</u>

* Amounts were adjusted to reflect deobligation of federal funding, and corresponding state match, see Note 6.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

A. General Background (Continued)

The federal grant years are one year behind the Fund's fiscal year. Therefore, federal year 2013 corresponds to the Fund's 2014 fiscal year.

For the 2008 grant's State match, the State used nonfederal administrative funds. The State match for 2009, 2010, 2011, and 2012 was paid from the 21st Century Fund.

The Fund is accounted for as an enterprise fund. The Fund is made up of several sub-funds whose funds are restricted for a specific purpose. 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 §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.
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;

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

A. General Background (Continued)

- 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% for up to 10% of the capitalization grant) for capitalization grant funds used for these purposes. This match is separate, and in addition to, the 20% 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.

B. Type of Entity and Division of Funds

The Fund is part of the reporting entity of the State. The Fund's activities are accounted for as a distinct operating unit within the DNREC. 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 that is attributable to the transactions of the Fund.

C. Measurement Focus and Basis of Accounting

The Fund's activities are financed and operated as an enterprise fund. The accompanying financial statements of the Fund have been prepared on a cost of services or capital maintenance approach under the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activities are included on its statement of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

The Fund utilizes the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standard Board (GASB). Under this method, revenues are recorded when earned, and expenses are recorded when incurred, regardless of the timing of the related cash flows. 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.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Fund. Operating revenues consist primarily of interest on loans receivable, and federal and state grants. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

investing types of activities and result from non-exchange transactions, such as investment income/loss.

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 Sub-Funds was met using designated expenditures made for other programs; therefore, no State monies were required to be provided to the Set-Aside Sub-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 the EPA and the State are recorded as grants receivable, whereas an excess of grant monies received over the amounts earned is recorded as unearned grant revenue. A right of set-off does not exist between the State and the EPA.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less (see Note 2).

F. Investments

Investments are stated at fair value based on quoted market values.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

H. Adoption of GASB Statements

The Fund adopted the provisions of Governmental Accounting Standards Board's Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB*, Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The adoption of these statements had no effect on the previously reported amounts.

I. Pending Changes in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The Fund is required to adopt statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Fund is required to adopt statement No. 69 for its fiscal year 2015 financial statements,

In November 2013, the GASB issued Statement No. 71, *Pension Transition Contributions Made Subsequent to the Measurement Date*. The Fund is required to adopt statement No. 71 simultaneously with the provisions of statement No. 68 for its fiscal year 2015 financial statements.

The Fund has not completed the various analyses required to estimate the financial statement impact of these new pronouncements.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 2 - Deposits and Investments

Deposits and Investments - State Treasurer's Pool

Cash and cash equivalents and investments, as reported on the statements of net position, represents the Fund's allocated share of cash, cash equivalents, and investments under the control of the Treasurer of the State of Delaware (the 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 credited 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. Since the Fund's deposits and investments are part of the State of Delaware's pooled deposits and investments maintained by the Treasurer, the required disclosures related to risks are included in the 2014 Delaware Comprehensive Annual Financial Report.

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 U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements

All State funds are required by law to be collateralized by direct obligations of, or obligations that are guaranteed by the United States of America or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc.'s Bank Watch Service. The Board has also determined that State 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 2 - Deposits and Investments (Continued)

Deposits and Investments - State Treasurer's Pool (Continued)

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.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the legal 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.

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

The following table illustrates the cash and cash equivalents, and investments of the fund held by the Treasurer at June 30, 2014 and 2013:

	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
Cash and cash equivalents	\$ 4,409,260	14.2%	\$ 4,840,521	20.8%
Investments – short-term	8,276	0.0%	15,754,963	67.7%
Investments – long-term	<u>26,629,614</u>	<u>85.8%</u>	<u>2,676,249</u>	<u>11.5%</u>
Total held by Treasurer	<u>\$ 31,047,150</u>	<u>100.0%</u>	<u>\$ 23,271,733</u>	<u>100.0%</u>

Note 3 - Due to/Due from

As of June 30, 2014 and 2013, \$672,175 was owed to the Capital Reserve Fund by the Nonfederal Administrative Fund to satisfy the required match amount on grant expenditures.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 4 - Available Funding, Disbursements, and Remaining Balance by Funding Year

As of June 30, 2014, the Fund had federal grants awarded in the amount of \$141,021,748, from which it had made disbursements of \$137,584,908. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2013 fiscal year, see Note 6. The breakdown for all grants is as follows:

Loan Fund

<u>Grant Year</u>	Committed Portion of Available <u>Funding</u>	Disbursed <u>to Date</u>	Remaining <u>Balance</u>
1997-2008	\$ 69,547,474	\$ 69,547,474	\$ -
2009	-	-	-
2010	-	-	-
2011	6,877,518	6,877,518	-
2012	6,517,469	6,517,469	-
2013	5,810,490	4,112,117	1,698,373
ARRA	<u>18,778,138</u>	<u>18,778,138</u>	<u>-</u>
Total	<u>\$107,531,089</u>	<u>\$105,832,716</u>	<u>\$1,698,373</u>

Set-Aside Sub-Funds

2% Technical Assistance

<u>Year</u>	<u>Funding</u>	<u>to Date</u>	<u>Balance</u>
1997-2008	\$ 1,496,106	\$ 1,496,106	\$ -
2009	147,111	147,111	-
2010	43,247	43,247	-
2011	160,000	160,000	-
2012	179,500	179,500	-
2013	<u>168,420</u>	<u>44,469</u>	<u>123,951</u>
Total	<u>\$ 2,194,384</u>	<u>\$ 2,070,433</u>	<u>\$ 123,951</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 4 - Available Funding, Disbursements, and Remaining Balance by Funding Year (Cont.)

Set-Aside Sub-Funds (Cont.)

4% Administration

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2008	\$ 3,219,706	\$ 3,219,706	\$ -
2009	315,264	315,264	-
2010	334,980	334,980	-
2011	368,609	368,609	-
2012	344,822	344,822	-
2013	336,840	112,341	224,499
ARRA	721,862	721,862	-
Total	<u>\$ 5,642,083</u>	<u>\$ 5,417,584</u>	<u>\$ 224,499</u>

10% Program Management

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2008	\$8,103,574	\$8,103,574	\$ -
2009	739,182	739,182	-
2010	842,490	842,490	-
2011	864,313	864,313	-
2012	826,353	747,240	79,113
2013	<u>842,100</u>	<u>328,702</u>	<u>513,398</u>
Total	<u>\$12,218,012</u>	<u>\$11,625,501</u>	<u>\$592,511</u>

15% Local Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2008	\$ 8,234,330	\$ 8,234,330	\$ -
2009	1,066,432	1,066,432	-
2010	617,852	617,852	-
2011	1,147,560	1,147,560	-
2012	1,106,856	1,101,055	5,801
2013	<u>1,263,150</u>	<u>471,445</u>	<u>791,705</u>
Total	<u>\$13,436,180</u>	<u>\$12,638,674</u>	<u>\$ 797,506</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 4 - Available Funding, Disbursements, and Remaining Balance by Funding Year (Continued)

Total Program Balance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2008	\$ 90,601,190	\$ 90,601,190	\$ -
2009	2,267,989	2,267,989	-
2010	1,838,569	1,838,569	-
2011	9,418,000	9,418,000	-
2012	8,975,000	8,890,086	84,914
2013	8,421,000	5,069,074	3,351,926
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$141,021,748</u>	<u>\$137,584,908</u>	<u>\$3,436,840</u>

Note 5 - Federal Grants Receivable

Grants receivable of \$346,589 and \$86,319, as of June 30, 2014 and 2013, respectively, represent amounts due from the federal government for amounts expended or accrued.

Note 6 - Deobligation of Federal and State Match Funds Between the Fund and Water Pollution Control Revolving Loan Fund (WPCRLF)

On September 4, 2012, the Environmental Protection Agency (EPA) deobligated \$27,050,177 of the Fund's federal capitalization grant and awarded it to the WPCRLF. As part of the deobligation, \$5,410,035, which represented the required 20% state match, was appropriated to WPCRLF. \$4,214,548 of the \$5,410,035 was included in the Unearned revenue – state match of the Fund on the Statement of Net Position on June 30, 2012. The remaining \$1,195,487 was transferred from Nonfederal Administrative funds. During 2014, no additional funds were deobligated.

Note 7 - Transfer of Funds Between the Fund and WPCRLF

In accordance with WPCRLF's Intended Use Plan (Plan), the \$32,460,212, described in the previous note, will be returned to the Fund 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 the fund. When funds are transferred between WPCRLF and the Fund, the funds will be accounted for as transfers out and in, respectively. No transfers were made to the Fund in 2014 or 2013.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 8 - Loans Receivable

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

	<u>Binding Commitments</u>	<u>Loans Receivable</u>	
		<u>2014</u>	<u>2013</u>
Municipal			
Town of Felton	\$ 377,000	\$ 56,523	\$ 101,637
Town of Frankford	275,000	613,331	677,844
Town of Bethany Beach	2,600,000	2,070,571	143,214
Town of Blades	890,300	377,063	366,302
Town of Milton	643,370	378,241	414,053
City of Wilmington	74,055,000	56,668,035	61,438,356
Town of Greenwood	1,692,730	1,161,998	1,519,624
Town of Dagsboro	1,400,000	994,358	1,045,643
Town of Millsboro	5,139,700	2,978,711	4,484,092
Town of Laurel	5,315,940	3,304,753	3,305,563
Town of Smyrna	8,435,275	3,886,624	6,064,851
City of Lewes	2,016,000	886,086	943,158
Town of Clayton	850,000	659,973	696,656
Town of Bridgeville	1,444,300	78,568	153,182
City of Rehoboth Beach	5,000,000	3,887,990	4,122,749
City of Seaford	2,729,408	1,178,765	2,716,332
City of Dover	2,404,017	2,151,142	2,254,263
Town of Delmar	1,392,896	439,646	415,721
Town of Middletown	3,011,000	916,247	726,527
City of Milford	4,045,000	339,404	180,354
Town of Selbyville	3,926,300	1,402,223	1,069,281
Town of Georgetown	7,651,500	2,727,999	2,194,518
City of Delaware City	297,300	200,255	-
Total Municipal	<u>135,592,136</u>	<u>87,358,506</u>	<u>95,033,920</u>
Investor-Owned			
Artesian Water Company	20,187,644	9,527,484	9,500,295
Tidewater Utilities, Inc.	14,524,493	10,110,086	9,926,755
J.H. Wilkerson & Son, Inc.	410,800	340,228	223,500
Total Investor-Owned	<u>35,122,937</u>	<u>19,977,798</u>	<u>19,650,550</u>
Mobile Home Park			
Innovative Construction	\$ 34,321	\$ 14,461	\$ 16,844
	<u>\$170,749,394</u>	107,350,765	114,701,314
Less: ARRA reserve		-	<u>9,768,245</u>
Loans Receivable		107,350,765	104,933,069
Less: loans receivable - Current portion		<u>5,241,028</u>	<u>4,226,804</u>
Loans Receivable - Net of Current Portion		<u>\$ 102,109,737</u>	<u>\$ 100,706,265</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 8 - Loans Receivable (Continued)

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$3,899,550 and \$2,874,832 for the years ended June 30, 2014 and 2013, 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 was no allowance for doubtful accounts as of June 30, 2014 and 2013. As of June 30, 2014 and 2013, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2014 and 2013. There has been no history of significant bad debts or uncollectible accounts.

The ARRA reserve of \$9,768,245 represents expenditures for loans that were reclassified as grants to the municipalities at the time of disbursement. The construction periods for these loans are completed.

Note 9 - Unearned Revenue - State Match

During 2013, \$5,410,035 were transferred from the Fund to WPCRLF, see Note 6. As of June 30, 2014, the Fund had available State match funding as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed</u>	<u>Remaining Balance</u>
1997-2008	\$ 16,712,900	\$ 16,712,900	\$ -
2009 *	453,598	453,598	-
2010 *	367,714	367,714	-
2011	1,883,600	1,883,600	-
2012	1,795,000	1,795,000	-
2013	<u>1,684,200</u>	<u>1,276,459</u>	<u>407,741</u>
Total	<u>\$22,897,012</u>	<u>\$22,489,270</u>	<u>\$ 407,741</u>

* Amounts were adjusted to reflect deobligation of federal funding, see Note 6.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 9 - Unearned Revenue - State Match (Continued)

Interest earned on cash deposits totaled \$68,538 and \$117,570 for the years ended June 30, 2014 and 2013, respectively.

For the grant year 2008, the Fund's required state match was \$1,407,338 of which the entire amount was disbursed from nonfederal administrative funds as of June 30, 2013.

Note 10 - Pension

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$196,468 for 2014 and \$124,353 for 2013 is included in salaries and related benefits.

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., c. 55 §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 29 Del. C. §5202 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 §2712 of Title 29.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 10 - Pension (Continued)

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

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 - Determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000.

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 Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 11 - Commitments and Contingencies

A. Loans

The Fund has met its prior binding commitments (equal to at least 120% of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2014, there were cumulative binding commitments of \$170,749,394.

B. Cost Reimbursement Contracts

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

Note 12 - 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 healthcare 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.

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, 2014, there were no outstanding or pending claims against the Fund.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

Note 14 - Subsequent Events

The Fund's policy is to evaluate events and transactions subsequent to year end for potential recognition in the financial statements or disclosures in the notes to the financial statements. Management has evaluated all events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Supplemental Information

State of Delaware Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Fund
For The Year Ended June 30, 2014

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 4,409,260	\$ -	\$ -	\$ -	\$ -	\$ 4,409,260
Investments - short-term	8,276	-	-	-	-	8,276
Loans receivable	5,241,028	-	-	-	-	5,241,028
Interest receivable	685,064	-	-	-	-	685,064
Federal grants receivable	291,645	-	4,036	20,552	30,356	346,589
Total Current Assets	10,635,273	-	4,036	20,552	30,356	10,690,217
Noncurrent Assets						
Investments - long-term	26,629,614	-	-	-	-	26,629,614
Loans receivable	102,109,737	-	-	-	-	102,109,737
Total Noncurrent Assets	128,739,351	-	-	-	-	128,739,351
Total Assets	\$ 139,374,624	\$ -	\$ 4,036	\$ 20,552	\$ 30,356	\$ 139,429,568
Liabilities						
Current Liabilities						
Vouchers payable	376,180	-	4,036	20,552	30,356	431,124
Total Current Liabilities	376,180	-	4,036	20,552	30,356	431,124
Long-Term Liabilities						
Unearned revenue - state match	407,741	-	-	-	-	407,741
Total Liabilities	783,921	-	4,036	20,552	30,356	838,865
Net Position						
Net position - restricted	138,590,703	-	-	-	-	138,590,703
Total Liabilities and Net Position	\$ 139,374,624	\$ -	\$ 4,036	\$ 20,552	\$ 30,356	\$ 139,429,568

State of Delaware Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Fund
For the Year Ended June 30, 2013

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 4,840,521	\$ -	\$ -	\$ -	\$ -	\$ 4,840,521
Investments - short term	15,754,963	-	-	-	-	15,754,963
Loans receivable	4,226,804	-	-	-	-	4,226,804
Interest receivable	704,890	-	-	-	-	704,890
Federal grants receivable	4,440	-	10,978	59,724	11,177	86,319
Total Current Assets	25,531,618	-	10,978	59,724	11,177	25,613,497
Noncurrent Assets						
Investments - long-term	2,676,249	-	-	-	-	2,676,249
Loans receivable	100,706,265	-	-	-	-	100,706,265
Total Noncurrent Assets	103,382,514	-	-	-	-	103,382,514
Total Assets	\$ 128,914,132	\$ -	\$ 10,978	\$ 59,724	\$ 11,177	\$ 128,996,011
Liabilities						
Current Liabilities						
Vouchers Payable	\$ -	\$ -	\$ 10,978	\$ 59,724	\$ 11,177	\$ 81,879
Total Current Liabilities	-	-	10,978	59,724	11,177	81,879
Long-Term Liabilities						
Unearned revenue - state match	-	-	-	-	-	-
Total Liabilities	-	-	10,978	59,724	11,177	81,879
Net Position						
Net position - restricted	128,914,132	-	-	-	-	128,914,132
Total Liabilities and Net Position	\$ 128,914,132	\$ -	\$ 10,978	\$ 59,724	\$ 11,177	\$ 128,996,011

State of Delaware Drinking Water Revolving Loan Fund
Schedule of Activities by Fund
For the Year Ended June 30, 2014

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,949,775	\$ -	\$ -	\$ -	\$ -	\$ 1,949,775
Interest income - administrative fees	1,949,775	-	-	-	-	1,949,775
Loan origination fees	36,943	-	-	-	-	36,943
Grant revenue	4,761,897	210,294	228,969	734,583	1,359,862	7,295,605
Principal forgiveness	(278,874)	-	-	-	-	(278,874)
State match	1,276,459	-	-	-	-	1,276,459
Total Operating Revenues	9,695,975	210,294	228,969	734,583	1,359,862	12,229,683
Operating Expenses						
Salaries and related benefits	-	-	115,151	482,356	854,561	1,452,068
Contract services	87,942	52,369	92,019	90,188	228,587	551,105
Indirect costs	-	-	21,799	140,390	167,201	329,390
Supplies	-	-	-	14,055	21,518	35,573
Training	-	157,925	-	457	82,113	240,495
Travel	-	-	-	7,137	5,882	13,019
Total Operating Expenses	87,942	210,294	228,969	734,583	1,359,862	2,621,650
Operating Income	9,608,033	-	-	-	-	9,608,033
Nonoperating Revenues						
Interest income - cash accounts	68,538	-	-	-	-	68,538
Total Nonoperating Revenues	68,538	-	-	-	-	68,538
Increase in Net Position	9,676,571	-	-	-	-	9,676,571
Net Position - Beginning of Year	128,914,132	-	-	-	-	128,914,132
Net Position - End of Year	\$ 138,590,703	\$ -	\$ -	\$ -	\$ -	\$ 138,590,703

**State of Delaware Drinking Water Revolving Loan Fund
Schedule of Activities by Fund
For the Year Ended June 30, 2013**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,437,416	\$ -	\$ -	\$ -	\$ -	\$ 1,437,416
Interest income - administrative fees	1,437,416	-	-	-	-	1,437,416
Loan origination fees	26,000	-	-	-	-	26,000
Grant revenue	13,223,282	153,734	454,869	1,291,942	1,052,898	16,176,725
Principal forgiveness	(797,431)	-	-	-	-	(797,431)
ARRA loan forgiveness	(15,614)	-	-	-	-	(15,614)
State match	3,827,737	-	-	-	-	3,827,737
Total Operating Revenues	19,138,806	153,734	454,869	1,291,942	1,052,898	22,092,249
Operating Expenses						
Grant to WPCRLF	1,195,487	-	-	-	-	1,195,487
Salaries and related benefits	-	-	311,191	384,909	289,101	985,201
Contract services	-	71,919	103,171	334,840	181,033	690,963
Indirect costs	-	-	40,332	24,980	36,359	101,671
Subgrants	-	-	-	328,311	474,342	802,653
Supplies	-	-	175	75,679	15,185	91,039
Equipment	-	-	-	135,010	-	135,010
Training	-	81,815	-	3,627	55,583	141,025
Travel	-	-	-	4,586	1,295	5,881
Total Operating Expenses	1,195,487	153,734	454,869	1,291,942	1,052,898	4,148,930
Operating Income	17,943,319	-	-	-	-	17,943,319
Nonoperating Revenues						
Interest Income - Cash	117,570	-	-	-	-	117,570
Total Nonoperating Revenues	117,570	-	-	-	-	117,570
Increase in Net Position	18,060,889	-	-	-	-	18,060,889
Net Position - Beginning of Year	110,853,243	-	-	-	-	110,853,243
Net Position - End of Year	\$ 128,914,132	\$ -	\$ -	\$ -	\$ -	\$ 128,914,132

State of Delaware Drinking Water Revolving Loan Fund
Schedules of Fund Net Position by Classification
June 30, 2014 and 2013

	2014				2013			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Assets								
Current Assets								
Cash and cash equivalents	\$ -	\$ 3,211,857	\$ 1,197,403	\$ 4,409,260	\$ -	\$ 4,433,828	\$ 406,693	\$ 4,840,521
Investments - short-term	-	6,029	2,247	8,276	-	10,540,176	5,214,787	15,754,963
Loans receivable - current portion	-	5,241,028	-	5,241,028	-	4,226,804	-	4,226,804
Interest receivable	-	342,532	342,532	685,064	-	352,445	352,445	704,890
Due to/(from)	-	672,175	(672,175)	-	-	672,175	(672,175)	-
Federal grants receivable	59,944	286,645	-	346,589	81,879	4,440	-	86,319
Total Current Assets	59,944	9,760,266	870,007	10,690,217	81,879	20,229,868	5,301,750	25,613,497
Noncurrent Assets								
Investments - long-term	-	19,397,929	7,231,685	26,629,614	-	1,790,428	885,821	2,676,249
Loans receivable - net of current portion	-	102,109,737	-	102,109,737	-	100,706,265	-	100,706,265
Total Noncurrent Assets	-	121,507,666	7,231,685	128,739,351	-	102,496,693	885,821	103,382,514
Total Assets	\$ 59,944	\$ 131,267,932	\$ 8,101,692	\$ 139,429,568	\$ 81,879	\$ 122,726,561	\$ 6,187,571	\$ 128,996,011
Liabilities								
Current Liabilities								
Vouchers payable	\$ 59,944	\$ 371,180	\$ -	\$ 431,124	\$ 81,879	\$ -	\$ -	\$ 81,879
Total Current Liabilities	59,944	371,180	-	431,124	81,879	-	-	81,879
Long-Term Liabilities								
Unearned revenue - state match	-	407,741	-	407,741	-	-	-	-
Total Liabilities	59,944	778,921	-	838,865	81,879	-	-	81,879
Net Position								
Net position - restricted	-	130,489,011	8,101,692	138,590,703	-	122,726,561	6,187,571	128,914,132
Total Liabilities and Net Position	\$ 59,944	\$ 131,267,932	\$ 8,101,692	\$ 139,429,568	\$ 81,879	\$ 122,726,561	\$ 6,187,571	\$ 128,996,011

State of Delaware Drinking Water Revolving Loan Fund
Schedules of Activities by Classification
June 30, 2014 and 2013

	2014				2013			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Operating Revenues								
Interest income - loans	\$ -	\$ 1,949,775	\$ -	\$ 1,949,775	\$ -	\$ 1,437,416	\$ -	\$ 1,437,416
Interest income - administrative fees	-	-	1,949,775	1,949,775	-	-	1,437,416	1,437,416
Loan origination fees	-	-	36,943	36,943	-	-	26,000	26,000
Grant revenue	2,533,708	4,761,897	-	7,295,605	2,953,443	13,223,282	-	16,176,725
ARRA loan forgiveness	-	-	-	-	-	(15,614)	-	(15,614)
Principal forgiveness	-	(278,874)	-	(278,874)	-	(797,431)	-	(797,431)
Write off of receivables	-	-	-	-	-	-	-	-
State match	-	1,276,459	-	1,276,459	-	4,499,912	(672,175)	3,827,737
Total Operating Revenues	2,533,708	7,709,257	1,986,718	12,229,683	2,953,443	18,347,565	791,241	22,092,249
Operating Expenses								
Grant to WPCRLF	-	-	-	-	-	-	1,195,487	1,195,487
Salaries and related benefits	1,452,068	-	-	1,452,068	985,201	-	-	985,201
Contract services	463,163	-	87,942	551,105	690,963	-	-	690,963
Indirect costs	329,390	-	-	329,390	101,671	-	-	101,671
Subgrants	-	-	-	-	802,653	-	-	802,653
Supplies	35,573	-	-	35,573	91,039	-	-	91,039
Equipment	-	-	-	-	135,010	-	-	135,010
Training	240,495	-	-	240,495	141,025	-	-	141,025
Travel	13,019	-	-	13,019	5,881	-	-	5,881
Total Operating Expenses	2,533,708	-	87,942	2,621,650	2,953,443	-	1,195,487	4,148,930
Operating Income (Loss)	-	7,709,257	1,898,776	9,608,033	-	18,347,565	(404,246)	17,943,319
Nonoperating Revenues								
Interest income - cash accounts	-	53,193	15,345	68,538	-	86,949	30,621	117,570
Total Nonoperating Revenues	-	53,193	15,345	68,538	-	86,949	30,621	117,570
Change in Net Position	-	7,762,450	1,914,121	9,676,571	-	18,434,514	(373,625)	18,060,889
Net Position - Beginning of Year	-	122,726,561	6,187,571	128,914,132	-	104,292,047	6,561,196	110,853,243
Net Position - End of Year	\$ -	\$ 130,489,011	\$ 8,101,692	\$ 138,590,703	\$ -	\$ 122,726,561	\$ 6,187,571	\$ 128,914,132

Zelenkofske Axelrod LLC

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

To the Management of the State of Delaware Drinking Water Revolving Loan Fund
Dover, DE

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 State of Delaware Drinking Water Revolving Loan Fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Delaware Drinking Water Revolving Loan 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 State of Delaware Drinking Water Revolving Loan Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Delaware Drinking Water Revolving Loan Fund's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Delaware Drinking Water Revolving Loan Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as finding 2014-001.

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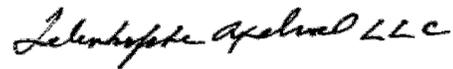
Zelenkofske Axelrod LLC

State of Delaware Drinking Water Revolving Loan Fund's Response to Findings

State of Delaware Drinking Water Revolving Loan Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. State of Delaware Drinking Water Revolving Loan Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
February 3, 2015

State of Delaware Drinking Water Revolving Loan Fund
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Current Year Findings

Finding 2014-001

Accounting Records

- Criteria: The Environmental Protection Agency, from which the State of Delaware Drinking Water Revolving Loan Fund (“Fund”) receives the majority of its grant funding, allows the Fund to be accounted for on a cash basis during the year, and make adjustments to convert to the accrual or modified accrual basis for financial statement presentation to present the financial statements in accordance with GAAP.
- Condition: The Fund records activity in ten QuickBooks files and is maintained on a cash basis. At the end of the fiscal year, the files are consolidated and accruals are calculated to prepare the financial statements. Based on audit inquiries, significant adjustments were made to cash, unearned revenue, grant revenue, state match, operating expenses, as well as balances between funds and classifications. These entries were posted as a result of the audit of the financial statements. In addition, changes were made to the notes to the financial statements and schedules of activities as a result of the adjustments.
- Cause: The conversion from the ten cash basis QuickBooks files to the accrual basis financial statements was not accurate. The initial preparation of the compiled financial statements and review of the compiled financial statements by management did not identify the errors within the financial statements.
- Effect: Without the audit adjustments, the Fund’s compiled financial statements did not reflect the complete and accurate financial activity of the Fund. As a result the financial statements, notes and schedules of activities were not properly presented.
- Recommendation: Management should review the compiled financials statements to ensure that all financial activity of the Fund is accurately reported in the financial statements to avoid material adjustments.

State of Delaware Drinking Water Revolving Loan Fund
Schedule of Findings and Responses (Continued)
For the Year Ended June 30, 2014

Current Year Findings (Continued)

Finding 2014-001 Accounting Records (Continued)

Management's
Response:

FY2014 was the first year in which DNREC assumed the account and financial management responsibility for the Department of Health and Social Services, DWSRF program. DNREC accepted the starting account balances for the DWSRF program based on information provided.

To record the complex accounting activity for the DWSRF program multiple QuickBooks files were created and will continue to be utilized. DNREC may request more time to prepare the required accounting compilation process from cash to accrual basis for year-end financial statements. In addition, the professional services proposal to be submitted by DNREC's third-party accounting firm for the preparation of year-end financial statements proposal to be submitted by DNREC's third-party accounting firm for the preparation of year-end financial statements will be analyzed to ensure sufficient resources are in place for a more efficient, error proofing/reduction process.

State of Delaware Drinking Water Revolving Loan Fund
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014

The summary which follows indicates the current year status of findings identified in the prior year Audit Report.

Prior Year Finding

<u>Prior Year Finding</u>	<u>Brief Description of Finding</u>	<u>Current Year Status</u>
2013-01	Audit Adjustments	See Finding 2014-001