

**State of Delaware Drinking Water Revolving Loan Fund
Financial Statements
June 30, 2015 and 2014**

Report Issued: December 9, 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 financial statements of the Delaware Drinking Water Revolving Loan Fund of the State of Delaware as of and for the years ended June 30, 2015 and 2014, and the related notes to those 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Drinking Water Revolving Loan Fund, of the State of Delaware as of June 30, 2015 and 2014, and the 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.

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Zelenkofske Axelrod LLC

Emphasis of Matters

As discussed in Note 1, the financial statements present only the 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, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adoption of Governmental Accounting Standards Board Principles

As discussed in Note 1 to the financial statements, during the fiscal year ending June 30, 2015, the Delaware Drinking Water Revolving Loan Fund adopted the provisions of Governmental Accounting Standards Board's Statement No. 68, "*Accounting and Financial Reporting for Pensions –an amendment of GASB Statement No. 27*", Statement No. 69, "*Government Combinations and Disposals of Government Operations*", and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68.*" 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 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Delaware Drinking Water Revolving Loan Fund's basic financial statements. 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 are presented for purposes of additional analysis and are not a required part of the financial statements.

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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 are fairly stated, in all material respects, in relation to the basic 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 December 4, 2015, on our consideration of the 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 Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Harrisburg, Pennsylvania
December 4, 2015

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2015 and 2014**

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, 2015 and June 30, 2014. 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 \$7,637.2 in fiscal year 2015, which represents an increase of 5.5%. The increase in net position in 2015 was smaller due to decreased loan disbursement activity. The Fund realized a change in net position of \$9,676.6 in fiscal year 2014, which represents a decrease of 46.4% from the change in net position of \$18,060.9 in fiscal year 2013, due to decreased loan activity and operating income from the Fund.

Grant revenue recognized from the federal and state governments totaled \$12,571.7 in fiscal year 2015, a 46.7% increase from fiscal year 2014, largely due to increased Federal grant revenues. Grant revenue recognized from the federal and state governments totaled \$8,572.1 in fiscal year 2014, a 57.1% decrease from fiscal year 2013, due to decreased State match revenues and a decrease in federal grants.

Loans made during 2015 totaled \$10,873.7, which represents an increase of \$3,816.9 from the previous year. This increase of 54.1% was caused by increased draws on existing loans from municipalities and others through the State. Loans made totaled \$7,056.8 during fiscal year 2014, 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.

Loan collections (principal) totaled \$5,470.6 during 2015. This represents an overall increase of \$1,110.3, 25.5%, from the prior year. Loan collections (principal) totaled \$4,360.2 during fiscal year 2014. This represents an overall decrease of \$93.8, 2.1%, from 2013 due to decreased borrowings and principal payments by loan recipients.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2015 and 2014 increased by \$7,637.2 and \$9,676.6, respectively. The following condensed statement of net position (Table 1) shows a summary of changes in dollars for the Fund for fiscal years ended June 30, 2015, 2014 and 2013.

During fiscal year 2015, cash, short-term, and long-term investments increased in aggregate by approximately \$6,681.8, 21.5%, to \$37,729.0 based on an increase in grants received from the EPA and State. Loans receivable increased, by \$586.0, .5%, to \$107,936.8, mostly as a result of increased draws in existing loans from municipalities. Federal grants receivable increased by approximately \$265.9, 76.7%, mostly due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2015.

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.

Vouchers payable increased by \$298.3, or 69.2% from the prior year as a result of timing of disbursements at year end for 2015. Vouchers payable in 2014 increased by \$349.2 over 2013 for the same reason.

Unearned revenue from the State match decreased 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)

	2015	2014	2013
Current Assets			
Cash and cash equivalents	\$ 13,959.7	\$ 4,409.3	\$ 4,840.5
Investments - short-term	9,432.3	8.3	15,755.0
Loans, current portion	5,844.1	5,241.0	4,226.8
Loan interest	679.1	685.1	704.9
Federal grants receivable	612.4	346.5	86.3
Total Current Assets	30,527.6	10,690.2	25,613.5
Noncurrent Assets			
Investments - long-term	14,337.0	26,629.6	2,676.2
Loans, net of current portion	102,092.7	102,109.8	100,706.3
Total Noncurrent Assets	116,429.7	128,739.4	103,382.5
Total Assets	\$ 146,957.3	\$ 139,429.6	\$ 128,996.0
Current Liabilities			
Vouchers payable	\$ 729.4	\$ 431.1	\$ 81.9
Total Current Liabilities	729.4	431.1	81.9
Noncurrent Liabilities			
Unearned revenue - state match	-	407.8	-
Total Liabilities	729.4	838.9	81.9
Net Position - Restricted	146,227.9	138,590.7	128,914.1
Total Liabilities and Net Position	\$ 146,957.3	\$ 139,429.6	\$ 128,996.0

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, 2015, 2014, and 2013 (Table 2).

Federal grant revenue increased by \$3,168.4, 43.4%, and the State match revenue increased by \$831.2, 65.1%, during fiscal year 2015 due to an overall increase in grants compared to the prior years. 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.

Interest income from cash deposits increased by \$67.8, 99.0% during fiscal year 2015, \$49.1, 41.8%, during fiscal year 2014, due mainly to fluctuations in interest rates utilized by the Treasurer of the State of Delaware.

Operating expenses increased by approximately \$446.9, 17.0%, due mainly to increased overall grant activity resulting in increased contractual services, personnel costs (salaries and related benefits) and indirect costs, offset by a decrease in training.

In 2014, 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.

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

	<u>2014</u>	<u>2014</u>	<u>2013</u>
Operating Revenues			
Interest income - loans and administrative fees	\$ 2,913.2	\$ 3,899.6	\$ 2,874.8
Loan origination fees	45.4	36.9	26.0
Grant revenue	10,464.0	7,295.6	16,176.7
ARRA loan forgiveness	-	-	(15.6)
Principal forgiveness	(4,960.9)	(278.9)	(797.4)
State match	2,107.7	1,276.5	3,827.7
Total Operating Revenues	<u>10,569.4</u>	<u>12,229.7</u>	<u>22,092.2</u>
Operating Expenses			
Grant to other funds	-	-	1,195.4
Salaries and related benefits	1,536.4	1,452.1	985.2
Contract services	881.7	551.1	691.0
Indirect costs	13.1	329.4	101.7
Subgrants	450.0	-	802.7
Supplies	104.5	35.6	91.0
Equipment	-	-	135.0
Travel	14.3	13.0	5.9
Training	68.5	240.4	141.0
Total Operating Expenses	<u>3,068.5</u>	<u>2,621.6</u>	<u>4,148.9</u>
Operating Income	7,500.9	9,608.1	17,943.3
Nonoperating Revenue			
Interest income - cash deposits	136.3	68.5	117.6
Total Nonoperating Revenue	<u>136.3</u>	<u>68.5</u>	<u>117.6</u>
Change in Net Position	7,637.2	9,676.6	18,060.9
Net Position - Beginning of Year	<u>138,590.7</u>	<u>128,914.1</u>	<u>110,853.2</u>
Net Position - End of Year	<u>\$ 146,227.9</u>	<u>\$ 138,590.7</u>	<u>\$ 128,914.1</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, 2015 and 2014

	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 13,959,728	\$ 4,409,260
Investments - short-term	9,432,249	8,276
Loans receivable	5,844,150	5,241,028
Interest receivable	679,069	685,064
Federal grants receivable	612,432	346,589
Total Current Assets	30,527,628	10,690,217
Noncurrent Assets:		
Investments - long-term	14,337,018	26,629,614
Loans receivable	102,092,653	102,109,737
Total Noncurrent Assets	116,429,671	128,739,351
Total Assets	\$ 146,957,299	\$ 139,429,568
Liabilities		
Current Liabilities:		
Vouchers payable	\$ 729,413	\$ 431,124
Total Current Liabilities	729,413	431,124
Noncurrent Liabilities:		
Unearned revenue - state match	-	407,741
Total Liabilities	729,413	838,865
Net Position		
Net position - restricted	146,227,886	138,590,703
Total Liabilities and Net Position	\$ 146,957,299	\$ 139,429,568

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Interest income - loans	\$ 1,456,581	\$ 1,949,775
Interest income - administrative fees	1,456,581	1,949,775
Loan origination fees	45,375	36,943
Grant revenue	10,463,986	7,295,605
Principal forgiveness	(4,960,872)	(278,874)
State match	2,107,741	1,276,459
	<u>10,569,392</u>	<u>12,229,683</u>
Total Operating Revenues		
Operating Expenses		
Salaries and related benefits	1,536,413	1,452,068
Contract services	881,707	551,105
Indirect costs	13,066	329,390
Subgrants	449,971	-
Supplies	104,463	35,573
Training	68,563	240,495
Travel	14,297	13,019
	<u>3,068,480</u>	<u>2,621,650</u>
Total Operating Expenses		
Operating Income	<u>7,500,912</u>	<u>9,608,033</u>
Nonoperating Revenues		
Interest income - cash accounts	136,271	68,538
	<u>136,271</u>	<u>68,538</u>
Total Nonoperating Revenues		
Change in Net Position	7,637,183	9,676,571
Net Position - Beginning of Year	<u>138,590,703</u>	<u>128,914,132</u>
Net Position - End of Year	<u>\$ 146,227,886</u>	<u>\$ 138,590,703</u>

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, 2015 and 2014

	2015	2014
Cash flow from operating activities		
Loan repayments	\$ 5,470,556	\$ 4,360,257
Interest income - loans	1,458,731	1,959,688
Interest income - administrative fees	1,460,426	1,959,688
Loan origination fees	45,375	36,943
Grants received from EPA	10,198,143	7,035,335
Grants received from the State of Delaware	1,700,000	1,684,200
Loan disbursements	(10,873,703)	(7,056,827)
Salaries and related benefits paid	(1,536,413)	(1,452,068)
General expenses paid	(1,377,541)	(820,337)
Net cash provided by operating activities	6,545,574	7,706,879
Cash flow from investing activity		
Proceeds from sales and purchases of investments - net	2,868,623	(8,206,678)
Interest received from cash deposits	136,271	68,538
Net cash provided by (used in) investing activity	3,004,894	(8,138,140)
Increase in cash and cash equivalents	9,550,468	(431,261)
Cash and cash equivalents - beginning of year	4,409,260	4,840,521
Cash and cash equivalents - end of year	\$ 13,959,728	\$ 4,409,260
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 7,500,912	\$ 9,608,033
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Increase in loans receivable	(586,038)	(2,417,696)
Increase in federal grants receivable	(265,843)	(260,270)
Increase/(decrease) in unearned revenue - state match	(407,741)	407,741
Decrease in interest and dividends receivable	5,995	19,826
Increase in vouchers payable	298,289	349,245
Net cash provided by operating activities	\$ 6,545,574	\$ 7,706,879

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, 2015 and 2014

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>
1997-2010*	\$ 113,649,298	\$ 94,707,748	\$ 18,941,550
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
2014	10,614,000	8,845,000	1,769,000
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$175,940,098</u>	<u>\$149,866,748</u>	<u>\$26,073,350</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, 2015 and 2014

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 2014 corresponds to the Fund's 2015 fiscal year.

The State match is paid from the 21st Century Fund primarily with additional amounts provided from nonfederal administrative funds, as needed.

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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Statement No. 69, *Government Combinations and Disposals of Government Operations*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The adoption of these statements had no effect on previously reported amounts.

I. Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The Fund is required to adopt Statement No. 72 for its fiscal year 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Fund is required to adopt Statement No. 73 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Fund is required to adopt Statement No. 74 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Fund is required to adopt Statement No. 75 for its fiscal year 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Fund is required to adopt Statement No. 76 for its fiscal year 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Fund is required to adopt Statement No. 77 for its fiscal year 2017 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, 2015 and 2014

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 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, 2015 and 2014

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, 2015 and 2014:

	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
Cash and cash equivalents	\$ 13,959,728	37.0%	\$ 4,409,260	14.2%
Investments – short-term	9,432,249	25.0%	8,276	0.0%
Investments – long-term	<u>14,337,018</u>	<u>38.0%</u>	<u>26,629,614</u>	<u>85.8%</u>
Total held by Treasurer	<u>\$ 37,728,995</u>	<u>100.0%</u>	<u>\$ 31,047,150</u>	<u>100.0%</u>

Note 3 - Due to/Due from

As of June 30, 2015 and 2014, \$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, 2015 and 2014

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

As of June 30, 2015, the Fund had federal grants awarded in the amount of \$149,866,748, from which it had made disbursements of \$147,783,049. 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

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2010	\$ 69,547,474	\$ 69,547,474	\$ -
2011	6,877,518	6,877,518	-
2012	6,517,469	6,517,469	-
2013	5,810,490	5,810,490	-
2014	6,103,050	5,700,092	402,958
ARRA	<u>18,778,138</u>	<u>18,778,138</u>	<u>-</u>
Total	<u>\$113,634,139</u>	<u>\$113,231,181</u>	<u>\$402,958</u>

Set-Aside Sub-Funds

2% Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2010	\$ 1,686,464	\$ 1,686,464	\$ -
2011	160,000	160,000	-
2012	179,500	179,500	-
2013	168,420	158,145	10,275
2014	<u>176,900</u>	<u>74,333</u>	<u>102,567</u>
Total	<u>\$ 2,371,284</u>	<u>\$ 2,258,442</u>	<u>\$ 112,842</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

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>
1997-2010	\$ 3,869,950	\$ 3,869,950	\$ -
2011	368,609	368,609	-
2012	344,822	344,822	-
2013	336,840	321,256	15,584
2014	353,800	132,467	221,333
ARRA	721,862	721,862	-
Total	<u>\$ 5,995,883</u>	<u>\$ 5,758,966</u>	<u>\$ 236,917</u>

10% Program Management

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2010	\$9,685,246	\$9,685,246	\$ -
2011	864,313	864,313	-
2012	826,353	826,353	-
2013	842,100	729,576	112,524
2014	884,500	373,966	510,534
Total	<u>\$13,102,512</u>	<u>\$12,479,454</u>	<u>\$623,058</u>

15% Local Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2010	\$ 9,918,614	\$ 9,918,614	\$ -
2011	1,147,560	1,147,560	-
2012	1,106,856	1,106,856	-
2013	1,263,150	1,221,850	41,300
2014	1,326,750	660,126	666,624
Total	<u>\$14,762,930</u>	<u>\$14,055,006</u>	<u>\$ 707,924</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

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>
1997-2010	\$ 94,707,748	\$ 94,707,748	\$ -
2011	9,418,000	9,418,000	-
2012	8,975,000	8,975,000	-
2013	8,421,000	8,241,317	179,683
2014	8,845,000	6,940,984	1,904,016
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$149,866,748</u>	<u>\$147,783,049</u>	<u>\$2,083,699</u>

Note 5 - Federal Grants Receivable

Grants receivable of \$612,432 and \$346,589, as of June 30, 2015 and 2014, 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 2015 and 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 2015 or 2014.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

Note 8 - Loans Receivable

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

	<u>Binding</u> <u>Commitments</u>	<u>Loans Receivable</u>	
		<u>2015</u>	<u>2014</u>
Municipal			
Town of Felton	\$ 377,000	\$ -	\$ 56,523
Town of Frankford	275,000	546,883	613,331
Town of Bethany Beach	2,600,000	2,292,685	2,070,571
Town of Blades	890,300	506,483	377,063
Town of Milton	643,370	341,289	378,241
City of Wilmington	78,055,000	57,654,892	56,668,035
Town of Greenwood	1,692,730	1,116,735	1,161,998
Town of Dagsboro	1,400,000	942,048	994,358
Town of Millsboro	5,139,700	2,830,663	2,978,711
Town of Laurel	6,487,740	3,950,941	3,304,753
Town of Smyrna	8,972,775	3,807,419	3,886,624
City of Lewes	2,016,000	827,584	886,086
Town of Clayton	850,000	622,286	659,973
Town of Bridgeville	1,444,300	948,090	78,568
City of Rehoboth Beach	5,000,000	3,646,707	3,887,990
City of Seaford	2,729,408	1,125,806	1,178,765
City of Dover	2,404,017	2,045,311	2,151,142
Town of Delmar	1,392,896	898,456	439,646
Town of Middletown	3,011,000	1,548,711	916,247
City of Milford	4,045,000	798,970	339,404
Town of Selbyville	3,926,300	11,006	1,402,223
Town of Georgetown	7,651,600	2,345,776	2,727,999
City of Delaware City	297,300	187,827	200,255
Total Municipal	<u>141,301,436</u>	<u>88,996,568</u>	<u>87,358,506</u>
Investor-Owned			
Artesian Water Company	20,187,644	9,070,551	9,527,484
Tidewater Utilities, Inc.	14,524,493	9,543,639	10,110,086
J.H. Wilkerson & Son, Inc.	410,800	313,341	340,228
Total Investor-Owned	35,122,937	18,927,531	19,977,798
Mobile Home Park			
Innovative Construction	\$ 34,321	\$ 12,704	\$ 14,461
	<u>\$176,458,694</u>	107,936,803	107,350,765
Less: loans receivable -			
Current portion		<u>5,844,150</u>	<u>5,241,028</u>
Loans Receivable - Net of			
Current Portion		<u>\$ 102,092,653</u>	<u>\$ 102,109,737</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

Note 8 - Loans Receivable (Continued)

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$2,913,162 and \$3,899,550 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014. As of June 30, 2015 and 2014, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2015 and 2014. There has been no history of significant bad debts or uncollectible accounts.

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, 2015, the Fund had disbursed all State match funding as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed</u>	<u>Remaining Balance</u>
1997-2010*	\$ 17,534,212	\$ 17,534,212	\$ -
2011	1,883,600	1,883,600	-
2012	1,795,000	1,795,000	-
2013	1,684,200	1,684,200	-
2014	<u>1,769,000</u>	<u>1,769,000</u>	<u>-</u>
Total	<u>\$24,666,012</u>	<u>\$24,666,012</u>	<u>\$ -</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, 2015 and 2014

Note 9 - Unearned Revenue - State Match (Continued)

Interest earned on cash deposits totaled \$136,271 and \$68,538 for the years ended June 30, 2015 and 2014, respectively.

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 \$207,773 for 2015 and \$196,468 for 2014 is included in salaries and related benefits. As of June 30, 2015, the Fund was not allocated any portion of the overall State of Delaware net pension liability.

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, 2015 and 2014

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, 2015 and 2014

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, 2015, there were cumulative binding commitments of \$176,458,694.

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, 2015, 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, 2015 and 2014

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, 2015

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 13,959,728	\$ -	\$ -	\$ -	\$ -	\$ 13,959,728
Investments - short term	9,432,249	-	-	-	-	9,432,249
Loans receivable	5,844,150	-	-	-	-	5,844,150
Interest receivable	679,069	-	-	-	-	679,069
Federal grants receivable	402,958	15,181	26,568	64,430	103,295	612,432
Total Current Assets	30,318,154	15,181	26,568	64,430	103,295	30,527,628
Noncurrent Assets						
Investments - long-term	14,337,018	-	-	-	-	14,337,018
Loans receivable	102,092,653	-	-	-	-	102,092,653
Total Noncurrent Assets	116,429,671	-	-	-	-	116,429,671
Total Assets	\$ 146,747,825	\$ 15,181	\$ 26,568	\$ 64,430	\$ 103,295	\$ 146,957,299
Liabilities						
Current Liabilities						
Vouchers Payable	\$ 519,939	\$ 15,181	\$ 26,568	\$ 64,430	\$ 103,295	\$ 729,413
Total Current Liabilities	519,939	15,181	26,568	64,430	103,295	729,413
Long-Term Liabilities						
Unearned revenue - state match	-	-	-	-	-	-
Total Liabilities	519,939	15,181	26,568	64,430	103,295	729,413
Net Position						
Net position - restricted	146,227,886	-	-	-	-	146,227,886
Total Liabilities and Net Position	\$ 146,747,825	\$ 15,181	\$ 26,568	\$ 64,430	\$ 103,295	\$ 146,957,299

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 Activities by Fund
For the Year Ended June 30, 2015

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,456,581	\$ -	\$ -	\$ -	\$ -	\$ 1,456,581
Interest income - administrative fees	1,456,581	-	-	-	-	1,456,581
Loan origination fees	45,375	-	-	-	-	45,375
Grant revenue	7,509,778	203,190	363,913	897,833	1,489,272	10,463,986
Principal forgiveness	(4,960,872)	-	-	-	-	(4,960,872)
State match	2,107,741	-	-	-	-	2,107,741
Total Operating Revenues	7,615,184	203,190	363,913	897,833	1,489,272	10,569,392
Operating Expenses						
Salaries and related benefits	-	-	217,862	498,216	820,335	1,536,413
Contract services	101,206	150,534	93,365	181,242	355,360	881,707
Indirect costs	13,066	-	-	-	-	13,066
Subgrants	-	-	51,121	151,258	247,592	449,971
Supplies	-	-	174	49,520	54,769	104,463
Training	-	52,656	780	8,660	6,467	68,563
Travel	-	-	611	8,937	4,749	14,297
Total Operating Expenses	114,272	203,190	363,913	897,833	1,489,272	3,068,480
Operating Income	7,500,912	-	-	-	-	7,500,912
Nonoperating Revenues						
Interest Income - Cash	136,271	-	-	-	-	136,271
Total Nonoperating Revenues	136,271	-	-	-	-	136,271
Increase in Net Position	7,637,183	-	-	-	-	7,637,183
Net Position - Beginning of Year	138,590,703	-	-	-	-	138,590,703
Net Position - End of Year	\$ 146,227,886	\$ -	\$ -	\$ -	\$ -	\$ 146,227,886

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
Schedules of Fund Net Position by Classification
June 30, 2015 and 2014

	2015				2014			
	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	\$ -	\$ 10,337,838	\$ 3,621,890	\$ 13,959,728	\$ -	\$ 3,211,857	\$ 1,197,403	\$ 4,409,260
Investments - short-term	-	6,985,026	2,447,223	9,432,249	-	6,029	2,247	8,276
Loans receivable - current portion	-	5,844,150	-	5,844,150	-	5,241,028	-	5,241,028
Interest receivable	-	340,382	338,687	679,069	-	342,532	342,532	685,064
Due to/(from)	-	672,175	(672,175)	-	-	672,175	(672,175)	-
Federal grants receivable	209,474	402,958	-	612,432	59,944	286,645	-	346,589
Total Current Assets	209,474	24,582,529	5,735,625	30,527,628	59,944	9,760,266	870,007	10,690,217
Noncurrent Assets								
Investments - long-term	-	10,617,239	3,719,779	14,337,018	-	19,397,929	7,231,685	26,629,614
Loans receivable - net of current portion	-	102,092,653	-	102,092,653	-	102,109,737	-	102,109,737
Total Noncurrent Assets	-	112,709,892	3,719,779	116,429,671	-	121,507,666	7,231,685	128,739,351
Total Assets	\$ 209,474	\$ 137,292,421	\$ 9,455,404	\$ 146,957,299	\$ 59,944	\$ 131,267,932	\$ 8,101,692	\$ 139,429,568
Liabilities								
Current Liabilities								
Vouchers payable	\$ 209,474	\$ 519,939	\$ -	\$ 729,413	\$ 59,944	\$ 371,180	\$ -	\$ 431,124
Total Current Liabilities	209,474	519,939	-	729,413	59,944	371,180	-	431,124
Long-Term Liabilities								
Unearned revenue - state match	-	-	-	-	-	407,741	-	407,741
Total Liabilities	209,474	519,939	-	729,413	59,944	778,921	-	838,865
Net Position								
Net position - restricted	-	136,772,482	9,455,404	146,227,886	-	130,489,011	8,101,692	138,590,703
Total Liabilities and Net Position	\$ 209,474	\$ 137,292,421	\$ 9,455,404	\$ 146,957,299	\$ 59,944	\$ 131,267,932	\$ 8,101,692	\$ 139,429,568

State of Delaware Drinking Water Revolving Loan Fund
Schedules of Activities by Classification
June 30, 2015 and 2014

	2015				2014			
	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	\$ -	\$ 1,456,581		\$ 1,456,581	\$ -	\$ 1,949,775	\$ -	\$ 1,949,775
Interest income - administrative fees	-	-	1,456,581	1,456,581	-	-	1,949,775	1,949,775
Loan origination fees	-	-	45,375	45,375	-	-	36,943	36,943
Grant revenue	2,954,208	7,509,778	-	10,463,986	2,533,708	4,761,897	-	7,295,605
Principal forgiveness	-	(4,960,872)	-	(4,960,872)	-	(278,874)	-	(278,874)
State match	-	2,176,741	(69,000)	2,107,741	-	1,276,459	-	1,276,459
Total Operating Revenues	2,954,208	6,182,228	1,432,956	10,569,392	2,533,708	7,709,257	1,986,718	12,229,683
Operating Expenses								
Salaries and related benefits	1,536,413	-	-	1,536,413	1,452,068	-	-	1,452,068
Contract services	780,501	-	101,206	881,707	463,163	-	87,942	551,105
Indirect costs	-	-	13,066	13,066	329,390	-	-	329,390
Subgrants	449,971	-	-	449,971	-	-	-	-
Supplies	104,463	-	-	104,463	35,573	-	-	35,573
Training	68,563	-	-	68,563	240,495	-	-	240,495
Travel	14,297	-	-	14,297	13,019	-	-	13,019
Total Operating Expenses	2,954,208	-	114,272	3,068,480	2,533,708	-	87,942	2,621,650
Operating Income (Loss)	-	6,182,228	1,318,684	7,500,912	-	7,709,257	1,898,776	9,608,033
Nonoperating Revenues								
Interest income - cash accounts	-	101,243	35,028	136,271	-	53,193	15,345	68,538
Total Nonoperating Revenues	-	101,243	35,028	136,271	-	53,193	15,345	68,538
Change in Net Position	-	6,283,471	1,353,712	7,637,183	-	7,762,450	1,914,121	9,676,571
Net Position - Beginning of Year	-	130,489,011	8,101,692	138,590,703	-	122,726,561	6,187,571	128,914,132
Net Position - End of Year	\$ -	\$ 136,772,482	\$ 9,455,404	\$ 146,227,886	\$ -	\$ 130,489,011	\$ 8,101,692	\$ 138,590,703

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 Delaware Drinking Water Revolving Loan Fund, of the State of Delaware as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Delaware Drinking Water Revolving Loan Fund's basic financial statements, and have issued our report thereon dated December 4, 2015

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Delaware Drinking Water Revolving Loan Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delaware Drinking Water Revolving Loan 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 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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Zelenkofske Axelrod LLC

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.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
December 4, 2015

State of Delaware Drinking Water Revolving Loan Fund
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015

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>
2014-01	Audit Adjustments	Resolved