

**State of Delaware Drinking Water Revolving Loan Fund
Financial Statements
Fiscal Years Ended June 30, 2020 and 2019**

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Independent Auditors' Report

Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund
89 Kings Highway
Dover, Delaware 19901

We have audited the accompanying financial statements of State of Delaware Drinking Water Revolving Loan Fund, (the Fund) as of and for the years ended June 30, 2020 and 2019 and the related notes to the 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*, as 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.

Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund

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 State of Delaware Drinking Water Revolving Loan Fund as of June 30, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note A, 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, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. 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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 State of Delaware Drinking Water Revolving Loan Fund's basic financial statements. The schedules of fund net position by sub-fund, schedules of activities by sub-fund, schedules of fund net position by classification, and schedules of activities by classification as of and for the years ended June 30, 2020 and 2019, together referred to as supplemental information as listed in the table of

Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund

contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2020 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 the effectiveness of the State of Delaware Drinking Water Revolving Loan Fund's 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 State of Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

October 9, 2020
Wilmington, Delaware

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2020 and 2019**

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, 2020 and 2019 (fiscal years 2020 and 2019). 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.

The Fund is jointly administered by the Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS). 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 federal 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 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.

The United States Environmental Protection Agency (the "EPA") authorized the Fund to issue subsidization through principal forgiveness loans. These loans are deemed no longer outstanding after the last loan disbursement is forgiven per the terms of the loan agreement. Therefore, it is the Fund's policy to maintain an allowance for subsidization through principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made.

Financial Highlights (Numbers in Thousands)

The Fund realized a change in net position of \$8,530 in fiscal year 2020, which represents an increase of 9%. The increase was a result of several factors, an increase in grant revenue, and a decrease in operating expenses such as supplies and grants. The Fund realized a change in net position of \$7,823 in fiscal year 2019, which represents an increase of 227%. The increase in net position in 2019 was due to decreased loan forgiveness.

Grant revenue recognized from the federal and state governments totaled \$9,549 in fiscal year 2020, a 12% increase from fiscal year 2019, due to increased State match revenues and an increase in federal grants. Grant revenue recognized from the federal and state governments totaled \$8,516 in fiscal year 2019, an 83% increase from fiscal year 2018, due to increased Federal and State grant revenues.

Loans made totaled \$8,461 during fiscal year 2020, which represents an increase of \$3,097 from the previous year. This increase of 58% was caused by increased draws on existing loans from municipalities and others through the State. Loans made during 2019 totaled \$5,363, which represents an increase of \$1,384 from the previous year. This increase of 35% was caused by increased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$8,120 during fiscal year 2020. This represents an overall increase of \$787, 11%, from 2019 due to increased borrowings in recent years resulting in increased principal payments by loan recipients. Loan collections (principal) totaled \$7,333 during 2019. This represents an overall increase of \$514 or 8%, from the prior year.

Loan agreements may provide for a subsidization of the loan where, upon completion, a percentage of the loan will be forgiven. The allowance for subsidization for fiscal 2020 was \$701. This represents an overall decrease of \$3,215, 82% from fiscal 2019. The allowance for subsidization for fiscal 2019 increased \$354, 10% to \$3,917.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2020 and 2019 increased by \$8,530 and \$7,823, 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, 2020, 2019 and 2018.

During fiscal year 2020, pooled cash increased by approximately \$11,837, 18% to \$76,903 based on an increase in grants received, an increase in interest income, and an increase in collections. Loans receivable decreased, by \$1,505, 2%, to \$95,252, mostly as a result of decreased loans made and an increase in loan subsidization. Federal grants receivable decreased by \$329, 49% due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2020.

During fiscal year 2019, pooled cash increased by approximately \$10,283, 19%, to \$65,066 based on an increase in loans and an increase in collections. Loans receivable decreased, by \$2,041, 2%, to \$96,757, mostly as a result of increased collections. Federal grants receivable increased by \$497, 281%, due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2019.

Vouchers payable in 2020 decreased by \$294 or 44% from the prior year as a result of timing of disbursements at year end for 2020. Vouchers payable in 2019 increased by \$442, or 199% for the same reason.

Table 1
Statement of Net Position
(Thousands of Dollars)

	June 30,		
	2020	2019	2018
Current Assets			
Pooled cash and investments	\$ 76,903	\$ 65,066	\$ 54,783
Loans, current portion	7,740	7,311	6,956
Loan interest	563	580	668
Federal grants receivable	345	674	177
Total Current Assets	<u>85,551</u>	<u>73,631</u>	<u>62,584</u>
Noncurrent Assets			
Loans, net of current portion	<u>87,512</u>	<u>89,446</u>	<u>91,842</u>
Total Assets	<u>\$ 173,063</u>	<u>\$ 163,077</u>	<u>\$ 154,426</u>
Current Liabilities			
Vouchers payable	\$ 370	\$ 664	\$ 222
Unearned revenue - state match	<u>2,201</u>	<u>451</u>	<u>64</u>
Total Current Liabilities	<u>2,571</u>	<u>1,115</u>	<u>286</u>
Total Liabilities	2,571	1,115	286
Net Position - Unrestricted	<u>170,492</u>	<u>161,962</u>	<u>154,140</u>
Total Liabilities and Net Position	<u>\$ 173,063</u>	<u>\$ 163,077</u>	<u>\$ 154,426</u>

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, 2020, 2019, and 2018 (Table 2).

Federal grant revenue increased by \$582, 7%, and the State match revenue increased \$451, during fiscal year 2020. Federal grant revenue increased by \$3,863, 83% during fiscal year 2019 due to an overall increase in grants compared to the prior years.

Interest income from cash deposits increased by \$988, 104% during fiscal year 2020, due to increased grant funds and due to the increase in pooled cash and investments. Interest income from cash deposits increased by \$718, 312%, during fiscal year 2019, due to increased grant funds and higher returns on the State's investment pool.

In 2020, operating expenses increased by approximately \$136, 4%, due mostly to increases in contract services.

In 2019, operating expenses decreased by approximately \$27, 1%, due to decreases in contract services and grants exceeding the increases in personnel costs (salaries and related benefits), indirect costs and supplies.

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

	June 30,		
	2020	2019	2018
Operating Revenue			
Interest income - loans and administrative fees	\$ 2,445	\$ 2,436	\$ 2,679
Operating Expenses			
Salaries and related benefits	1,616	1,814	1,574
Contract services	1,409	1,011	1,309
Grants	134	302	509
Indirect costs	349	293	183
Supplies	247	250	122
Training	54	-	-
Travel	2	5	5
Total Operating Expenses	<u>3,811</u>	<u>3,675</u>	<u>3,702</u>
Operating Loss	<u>(1,366)</u>	<u>(1,239)</u>	<u>(1,023)</u>
Nonoperating Revenues and Expenses			
Interest income - cash deposits	1,935	947	230
Grant revenue	9,098	8,516	4,653
State match	451	-	-
Subsidization through principal forgiveness	<u>(1,588)</u>	<u>(402)</u>	<u>(1,465)</u>
Total Nonoperating Revenues and Expenses	<u>9,896</u>	<u>9,061</u>	<u>3,418</u>
Change in Net Position	8,530	7,822	2,395
Net Position - Beginning of Year	<u>161,962</u>	<u>154,140</u>	<u>151,745</u>
Net Position - End of Year	<u>\$ 170,492</u>	<u>\$ 161,962</u>	<u>\$ 154,140</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:

Gregory Pope
State of Delaware
Department of Natural Resources & Environmental Control
Division of Water Resources
97 Commerce Way, Suite 106
Dover, DE 19901

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Pooled cash and investments	\$ 76,902,656	\$ 65,066,335
Interest receivable	563,388	579,632
Federal grants receivable	344,552	673,997
Loans receivable	7,739,974	7,311,385
Total Current Assets	85,550,570	73,631,349
Noncurrent Assets		
Loans receivable	87,512,243	89,445,504
Total Assets	\$ 173,062,813	\$ 163,076,853
Liabilities		
Current Liabilities		
Vouchers payable	\$ 369,714	\$ 663,849
Unearned revenue - state match	2,200,800	451,400
Total Current Liabilities	2,570,514	1,115,249
Net Position		
Net Position - Unrestricted	170,492,299	161,961,604
Total Liabilities and Net Position	\$ 173,062,813	\$ 163,076,853

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Interest income - loans	\$ 1,222,331	\$ 1,217,781
Interest income - administrative fees	<u>1,222,376</u>	<u>1,217,723</u>
Total Operating Revenues	<u>2,444,707</u>	<u>2,435,504</u>
Operating Expenses		
Salaries and related benefits	1,616,420	1,814,276
Contract services	1,408,514	1,010,883
Grants	133,513	301,719
Indirect costs	348,979	293,135
Supplies	246,941	250,457
Training	54,006	393
Travel	<u>1,750</u>	<u>4,419</u>
Total Operating Expenses	<u>3,810,123</u>	<u>3,675,282</u>
Operating Loss	<u>(1,365,416)</u>	<u>(1,239,778)</u>
Nonoperating Revenues and Expenses		
Interest income - cash accounts	1,935,382	947,566
Grant revenue	9,097,611	8,515,796
State match	451,400	-
Subsidization through principal forgiveness	<u>(1,588,282)</u>	<u>(401,813)</u>
Total Nonoperating Revenues (Expenses)	<u>9,896,111</u>	<u>9,061,549</u>
Change in Net Position	8,530,695	7,821,771
Net Position - Beginning of Year	<u>161,961,604</u>	<u>154,139,833</u>
Net Position - End of Year	<u>\$ 170,492,299</u>	<u>\$ 161,961,604</u>

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Loan repayments	\$ 8,120,281	\$ 7,333,064
Interest income - loans	1,222,331	1,217,781
Interest income - administrative fees	1,222,376	1,217,723
Loan disbursements	(8,460,964)	(5,363,727)
Salaries and related benefits paid	(1,616,420)	(1,814,276)
General expenses paid	(2,214,521)	(1,725,254)
Net cash provided by (used in) operating activities	<u>(1,726,917)</u>	<u>865,311</u>
Cash flows from noncapital financing activities		
Grants received from EPA	9,427,056	8,019,397
Grants received from state	2,200,800	451,400
Net cash provided by noncapital financing activities	<u>11,627,856</u>	<u>8,470,797</u>
Cash flows from investing activities		
Interest received from cash deposits	1,935,382	947,566
Net increase in cash and cash equivalents	11,836,321	10,283,674
Cash and cash equivalents - beginning of year	65,066,335	54,782,661
Cash and cash equivalents - end of year	<u>\$ 76,902,656</u>	<u>\$ 65,066,335</u>
Reconciliation of net operating income to net cash provided by (used in) operating activities		
Operating loss	\$ (1,365,416)	\$ (1,239,778)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	(83,610)	1,639,305
(Increase) decrease in interest and dividends receivable	16,244	88,591
Increase (decrease) in vouchers payable	(294,135)	441,886
Increase (decrease) in due to other entities	-	(64,693)
Net cash provided by (used in) operating activities	<u>\$ (1,726,917)</u>	<u>\$ 865,311</u>
Schedule of noncash investing activities		
Subsidization through principal forgiveness	<u>\$ (1,588,282)</u>	<u>\$ (401,813)</u>
See accompanying notes to financial statements.		

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements
Years Ended June 30, 2020 and 2019

Note A - 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.

1. 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 jointly administered by the State of Delaware Department of Health and Social Services (DHSS), and the State of Delaware Department of Natural Resources and Environmental Control (DNREC). DHSS is responsible for program administration, which includes: project solicitation; environmental reviews; construction project management; and management of program set-asides. DNREC is responsible for accounting and financial management, which includes management of accounts; coordinating audit requirements; and coordinating loan closings with legal counsel.

The Fund is funded through federal capitalization grants as established under Federal §1452 of the Safe Drinking Water Act (the Act) and Capitalization Grants for Drinking Water State Revolving Loan Fund (CFDA #66.468). The Act requires the State to provide matching funds equal to 20% of federal funds received. The grants were issued as follows:

Grant Year	Total Available Funding	Federal Portion	State Portion
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2015 *	166,984,498	139,153,748	27,830,750
2016	9,974,400	8,312,000	1,662,400
2017	9,889,200	8,241,000	1,648,200
2018	13,328,400	11,107,000	2,221,400
2019	13,204,800	11,004,000	2,200,800
Total	<u>\$ 232,881,298</u>	<u>\$ 197,317,748</u>	<u>\$ 35,563,550</u>

*Amounts were adjusted to reflect deobligation of federal funding, and corresponding state match, see notes D and F.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note A - Summary of Significant Accounting Policies (Continued)

1. General Background (Continued)

The federal grant years are one year behind the Fund's fiscal year. Therefore, federal year 2019 corresponds to the Fund's 2020 fiscal year.

The State match is paid from nonfederal administrative funds or from appropriations received from the State of Delaware.

The Fund is accounted for as an enterprise fund. The Fund is made up of five 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 federal grant revenues that are legally restricted to expenditures for specific purposes.

There are four such funds:

- a. 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.
- b. 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.
- c. The 10% Program Management Sub-Fund is used to account for the funds allotted to the State (up to 10% of the total) to:
 - 1) Administer the State Public Water System Supervision Program (PWSS) program;
 - 2) 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, 2020 and 2019

Note A - Summary of Significant Accounting Policies (Continued)

1. General Background (Continued)

- 3) Develop and implement a capacity development strategy; and
- 4) 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.

- d. 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.

2. 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.

3. 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 loan administration fees. Non-operating revenues and expenses consist of federal and state grants and those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions, such as investment income/loss.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note A - Summary of Significant Accounting Policies (Continued)

4. Recognition of Revenues

Federal assistance provided to the Fund by the EPA and State is earned when qualified loan requisitions and supporting expenditure documentation is received by the Fund and when the borrowers' authorized representative and consulting engineer have certified the work completed. Matching funds provided by the State are considered earned by the same criteria. Amounts earned in excess of grant monies received from the EPA and the State are recorded as grants receivable, whereas 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.

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

5. Pooled Cash

Pooled cash consists of the funds allocated share of cash, cash equivalents, and investments under control of the Treasurer of the State of Delaware (see Note B).

6. 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.

Note B - Pooled Cash

Pooled Cash - State Treasurer's Pool

Pooled cash, 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 pooled cash is 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note B - Pooled Cash (Continued)

Pooled Cash - State Treasurer's Pool (Continued)

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 certificates of deposit and time deposits 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.

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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note B - Pooled Cash (Continued)

Pooled Cash - State Treasurer's Pool (Continued)

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/>).

Note C - Due to/Due from

As of June 30, 2020 and 2019, \$672,175 was owed to the Capital Reserve Fund by the Nonfederal Administrative Fund to satisfy the required match amount on grant expenditures.

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

As of June 30, 2020, the Fund had federal grants awarded in the amount of \$197,317,749, from which it had made disbursements of \$186,258,497. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2012 fiscal year, see Note F. The breakdown for all grants is as follows:

Loan Fund			
Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 18,778,138	\$ 18,778,138	\$ -
1997-2015	100,919,031	100,919,031	-
2016	5,923,686	5,923,686	-
2017	5,686,290	5,686,290	-
2018	7,663,830	6,371,069	1,292,761
2019	7,592,760	-	7,592,760
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 146,563,735</u>	<u>\$ 137,678,214</u>	<u>\$ 8,885,521</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

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

Set-Aside Sub-Funds

2% Technical Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2015	\$ 2,547,024	\$ 2,547,024	\$ -
2016	166,240	166,240	-
2017	164,820	164,820	-
2018	222,140	222,140	-
2019	220,080	95,603	124,477
Total	<u>\$ 3,320,304</u>	<u>\$ 3,195,827</u>	<u>\$ 124,477</u>

4% Administration

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
ARRA	\$ 721,862	\$ 721,862	\$ -
1997-2015	5,625,501	5,625,501	-
2016	144,376	144,376	-
2017	329,640	329,640	-
2018	444,280	336,833	107,447
2019	440,160	134,811	305,349
Total	<u>\$ 7,705,819</u>	<u>\$ 7,293,023</u>	<u>\$ 412,796</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

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

Set-Aside Sub-Funds (Continued)

10% Program Management

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2015	\$ 13,981,212	\$ 13,981,212	\$ -
2016	830,815	830,815	-
2017	824,100	824,100	-
2018	1,110,700	996,164	114,536
2019	<u>1,100,400</u>	<u>655,712</u>	<u>444,688</u>
Total	<u>\$ 17,847,227</u>	<u>\$ 17,288,003</u>	<u>\$ 559,224</u>

15% Local Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2015	\$ 16,080,980	\$ 16,080,980	\$ -
2016	1,246,884	1,246,884	-
2017	1,236,150	1,236,150	-
2018	1,666,050	1,570,091	95,959
2019	<u>1,650,600</u>	<u>669,325</u>	<u>981,275</u>
Total	<u>\$ 21,880,664</u>	<u>\$ 20,803,430</u>	<u>\$ 1,077,234</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

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

Set-Aside Sub-Funds (Continued)

Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2015	139,153,748	139,153,748	-
2016	8,312,001	8,312,001	-
2017	8,241,000	8,241,000	-
2018	11,107,000	9,496,297	1,610,703
2019	<u>11,004,000</u>	<u>1,555,451</u>	<u>9,448,549</u>
Total	<u>\$ 197,317,749</u>	<u>\$ 186,258,497</u>	<u>\$ 11,059,252</u>

Note E - Federal Grants Receivable

Grants receivable of \$344,552 and \$673,997, as of June 30, 2020 and 2019, respectively, represent amounts due from the federal government for amounts expended or accrued.

Note F - 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. During 2020 and 2019, no additional funds were deobligated.

In accordance with WPCRLF's Intended Use Plan (Plan), the \$32,460,212, described above 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 2020 or 2019.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note G - Loans Receivable

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

	Loans Receivable	
	2020	2019
City of Harrington	\$ 469,141	\$ 645,721
Town of Frankford	-	445,066
Town of Bethany Beach	1,201,689	1,420,896
Town of Blades	388,572	414,349
Town of Milton	774,462	181,331
City of Wilmington	53,764,636	56,059,357
Town of Greenwood	881,393	928,420
Town of Dagsboro	664,345	722,116
Town of Millsboro	2,024,052	2,194,654
Town of Laurel*	2,605,272	2,604,054
Town of Smyrna	4,051,180	3,189,573
City of Lewes	95,930	98,719
Town of Clayton	417,789	460,928
Town of Bridgeville	893,769	948,560
City of Rehoboth Beach	2,335,908	2,612,633
City of Seaford	833,906	896,098
City of Dover	5,472,966	4,191,546
Town of Delmar*	1,164,729	546,591
Town of Middletown	1,182,978	1,266,023
City of Milford	2,258,670	2,414,190
Town of Georgetown	44,344	3,849,317
City of Delaware City	120,313	141,548
Less: Principal subsidization allowance	(701,512)	(3,916,840)
Total Municipal	\$ 80,944,532	\$ 82,314,850

*Subsidy allowed

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note G - Loans Receivable (Continued)

	Loans Receivable	
	2020	2019
Investor-Owned		
Artesian Water Company	\$ 5,416,415	\$ 6,266,775
Tidewater Utilities, Inc.	7,970,342	7,003,016
J.H. Wilkerson & Son, Inc.	-	178,641
Southern Shores Water Co, LLC	919,400	989,677
Total Investor-Owned	14,306,157	14,438,109
Mobile Home park		
Innovative Construction	1,528	3,930
	95,252,217	96,756,889
Less: loans receivable - current portion	7,739,974	7,311,385
Loans Receivable - Net of Current Portion	\$ 87,512,243	\$ 89,445,504

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$2,444,707 and \$2,435,504 for the years ended June 30, 2020 and 2019, 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.

Except for the principal subsidy allowance, there was no allowance for doubtful accounts as of June 30, 2020 and 2019 based on historical experience. As of June 30, 2020 and 2019, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2020 and 2019. There has been no history of significant bad debts or uncollectible accounts.

The Fund also issues loans eligible for subsidization through principal forgiveness from funds provided under EPA grants received by the Fund. These loans are to be deemed no longer outstanding after the last loan disbursement is forgiven per the terms of the loan agreement. Therefore, it is the Fund's policy to maintain an allowance for subsidization through principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made to the recipient and the loan can be removed from the outstanding loans list.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note G - Loans Receivable (Continued)

The allowance for subsidization as of June 30, 2020 and 2019 was \$701,512 and \$3,916,840, respectively.

Note H - State Match

During 2013, \$5,410,035 which represents the 20% state match of the \$27,050,177 (deobligated federal capitalization grant) was transferred from the Fund to WPCRLF, see Note F. As of June 30, 2020, the Fund had disbursed all State match funding as follows:

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2015 *	\$ 26,423,412	\$ 26,423,412	\$ -
2016	1,662,400	1,662,400	-
2017	1,648,200	1,648,200	-
2018	2,221,400	2,221,400	-
2019	2,200,800	-	2,200,800
Total	<u>\$ 34,156,212</u>	<u>\$ 31,955,412</u>	<u>\$ 2,200,800</u>

*Amounts were adjusted to reflect deobligation of federal funding, see note F.

Note I - Pension

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$231,901 for 2020 and \$247,394 for 2019 is included in salaries and related benefits. As of June 30, 2020, 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 multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan:

1. Employees hired prior to January 1, 2012 (Pre-2012)
2. Employees hired on or after January 1, 2012 (Post-2011)

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note I - Pension (Continued)

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

Vesting:

Pre-2012 date of hire: 5 years of credited service.

Post-2011 date of hire: 10 years of credited service.

Retirement - For pre-2012 employees, 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; 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 - For pre-2012 employees, 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. All post-2011 employees, are in the Disability Insurance Program.

Survivor Benefits - If the employee is receiving a pension, the eligible survivor receives 50% (or 66.7% with a 2% reduction of benefit or 100% with a 6% 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 based on the actuarially determined rate. Employer contributions were 9.6% of earnings for fiscal year 2020.

Pre-2012 date of hire employee - 3% of earnings in excess of \$6,000.

Post-2011 date of hire employee - 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note I- Pension (Continued)

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 or online at www.delawarepensions.com.

Note J- Other Post-Employment Benefits (OPEB)

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the State Employees' Pension Plan. The OPEB Trust is administered by the Delaware Public Employees' Retirement System (DPERS) Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. As of June 30, 2020, the Fund was not allocated any portion of the overall State of Delaware net OPEB liability. Further information is available in the State's stand-alone financial report, issued for the OPEB Trust, online at <https://auditor.delaware.gov/reports>.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees' Pension Plan.

Substantially all State employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

Age 62 with 5 years of service, or age 60 with 15 years of service, or any age with 30 years of service

General Assembly:

Age 60 with 5 years of service, or age 55 with 10 years of service

Normal Retirement (hired on or after January 1, 2012):

Age 65 with 10 years of service, or age 60 with 20 years of service, or any age with 30 years of service

Benefits:

During the fiscal year ended June 30, 2020, the State provided health insurance options through several providers.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note J- Other Post-Employment Benefits (OPEB) (Continued)

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions. Surviving spouses are eligible for coverage after the retiree's death.

Retiree Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service.

Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay in addition to their percentage above an additional 5% of the Medicare Supplement offered by the State.

Funding Policy:

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined, typically from the General Fund. Additional funding has also been provided on an ad hoc basis.

Contributions:

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined.

Note K - Commitments and Contingencies

1. 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, 2020, there were \$13,770,605 in undisbursed loan proceeds for projects under construction. As of June 30, 2020, there were binding commitments of \$19,498,628.

2. Cost Reimbursement Contracts

The Fund derives 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

Note L - 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, 2020, there were no outstanding or pending claims against the Fund.

Note M - 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.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to instability in financial markets. The Fund may experience delays in collecting loan payments which may result in significant uncollectible balances as a result of the pandemic. The actual impact, if any, cannot be determined at this time.

Supplemental Information

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Sub-Fund
June 30, 2020

	<u>Loan Fund</u>	<u>2% Technical Assistance</u>	<u>4% Administration</u>	<u>10% Program Management</u>	<u>15% Local Assistance</u>	<u>Total</u>
Assets						
Current Assets						
Pooled cash and investments	\$ 76,869,777	\$ -	\$ 2,966	\$ 20,691	\$ 9,222	\$ 76,902,656
Loans receivable	7,739,974	-	-	-	-	7,739,974
Interest receivable	563,388	-	-	-	-	563,388
Federal grants receivable	218,900	-	10,878	59,017	55,757	344,552
Total Current Assets	85,392,039	-	13,844	79,708	64,979	85,550,570
Noncurrent Assets						
Loans receivable	87,512,243	-	-	-	-	87,512,243
Total Assets	\$ 172,904,282	\$ -	\$ 13,844	\$ 79,708	\$ 64,979	\$ 173,062,813
Liabilities						
Current Liabilities						
Vouchers payable	\$ 218,900	\$ -	\$ 13,372	\$ 66,864	\$ 70,578	\$ 369,714
Unearned revenue - state match	2,200,800	-	-	-	-	2,200,800
Total Current Liabilities	2,419,700	-	13,372	66,864	70,578	2,570,514
Net Position						
Net Position - Unrestricted	170,484,582	-	472	12,844	(5,599)	170,492,299
Total Liabilities and Net Position	\$ 172,904,282	\$ -	\$ 13,844	\$ 79,708	\$ 64,979	\$ 173,062,813

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Sub-Fund
June 30, 2019

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current Assets						
Pooled cash and investments	\$ 65,066,335	\$ -	\$ -	\$ -	\$ -	\$ 65,066,335
Loans receivable	7,311,385	-	-	-	-	7,311,385
Interest receivable	579,632	-	-	-	-	579,632
Federal grants receivable	475,973	-	32,571	73,259	92,194	673,997
Total Current Assets	73,433,325	-	32,571	73,259	92,194	73,631,349
Noncurrent Assets						
Loans receivable	89,445,504	-	-	-	-	89,445,504
Total Assets	\$ 162,878,829	\$ -	\$ 32,571	\$ 73,259	\$ 92,194	\$ 163,076,853
Liabilities						
Current Liabilities						
Vouchers payable	\$ 475,972	\$ -	\$ 31,959	\$ 60,435	\$ 95,483	\$ 663,849
Unearned revenue - state match	451,400	-	-	-	-	451,400
Total Current Liabilities	927,372	-	31,959	60,435	95,483	1,115,249
Net Position						
Net Position - Unrestricted, as adjusted	161,951,457	-	612	12,824	(3,289)	161,961,604
Total Liabilities and Net Position	\$ 162,878,829	\$ -	\$ 32,571	\$ 73,259	\$ 92,194	\$ 163,076,853

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Sub-Fund
Year Ended June 30, 2020

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,222,331	\$ -	\$ -	\$ -	\$ -	\$ 1,222,331
Interest income - administrative fees	1,222,376	-	-	-	-	1,222,376
Total Operating Revenues	2,444,707	-	-	-	-	2,444,707
Operating Expenses						
Salaries and related benefits	-	-	195,175	662,655	758,590	1,616,420
Contract services	471,700	209,100	155,653	49,553	522,508	1,408,514
Grants	133,513	-	-	-	-	133,513
Indirect costs	-	-	34,491	144,622	169,866	348,979
Supplies	87,213	-	3,340	121,159	35,229	246,941
Training	-	-	-	-	54,006	54,006
Travel	147	-	-	-	1,603	1,750
Total Operating Expenses	692,573	209,100	388,659	977,989	1,541,802	3,810,123
Operating Income (Loss)	1,752,134	(209,100)	(388,659)	(977,989)	(1,541,802)	(1,365,416)
Nonoperating Revenues and Expenses						
Interest income - cash accounts	1,935,382	-	-	-	-	1,935,382
Grant revenue	5,982,491	209,100	388,519	978,009	1,539,492	9,097,611
State match	451,400	-	-	-	-	451,400
Subsidization through principal forgiveness	(1,588,282)	-	-	-	-	(1,588,282)
Total Nonoperating Revenues (Expenses)	6,780,991	209,100	388,519	978,009	1,539,492	9,896,111
Increase (Decrease) in Net Position	8,533,125	-	(140)	20	(2,310)	8,530,695
Net Position - Beginning of Year	161,951,457	-	612	12,824	(3,289)	161,961,604
Net Position - End of Year	\$ 170,484,582	\$ -	\$ 472	\$ 12,844	\$ (5,599)	\$ 170,492,299

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Sub-Fund
Year Ended June 30, 2019

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,217,781	\$ -	\$ -	\$ -	\$ -	\$ 1,217,781
Interest income - administrative fees	1,217,723	-	-	-	-	1,217,723
Total Operating Revenues	2,435,504	-	-	-	-	2,435,504
Operating Expenses						
Salaries and related benefits	50,056	-	214,046	685,534	864,640	1,814,276
Contract services	344,582	220,111	101,548	60,420	284,222	1,010,883
Grants	301,719	-	-	-	-	301,719
Indirect costs	-	-	24,485	121,073	147,577	293,135
Supplies	155,589	-	2,409	80,179	12,280	250,457
Training	-	-	-	-	393	393
Travel	934	-	-	1,312	2,173	4,419
Total Operating Expenses	852,880	220,111	342,488	948,518	1,311,285	3,675,282
Operating Income (Loss)	1,582,624	(220,111)	(342,488)	(948,518)	(1,311,285)	(1,239,778)
Nonoperating Revenues and Expenses						
Interest income - cash accounts	947,566	-	-	-	-	947,566
Grant revenue	5,693,759	220,111	342,488	948,197	1,311,241	8,515,796
Subsidization through principal forgiveness	(401,813)	-	-	-	-	(401,813)
Total Nonoperating Revenues	6,239,512	220,111	342,488	948,197	1,311,241	9,061,549
Increase (Decrease) in Net Position	7,822,136	-	-	(321)	(44)	7,821,771
Net Position - Beginning of Year	154,129,321	-	612	13,145	(3,245)	154,139,833
Net Position - End of Year	\$ 161,951,457	\$ -	\$ 612	\$ 12,824	\$ (3,289)	\$ 161,961,604

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Classification
June 30, 2020 and 2019

	2020				2019			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Assets								
Current Assets								
Pooled cash and investments	\$ 32,879	\$ 68,654,890	\$ 8,214,887	\$ 76,902,656	\$ -	\$ 57,611,486	\$ 7,454,849	\$ 65,066,335
Loans receivable - current portion	-	7,739,974	-	7,739,974	-	7,311,385	-	7,311,385
Interest receivable	-	282,076	281,312	563,388	-	290,221	289,411	579,632
Due to/(from)	-	672,175	(672,175)	-	-	672,175	(672,175)	-
Federal grants receivable	125,652	218,900	-	344,552	198,024	475,973	-	673,997
Total Current Assets	158,531	77,568,015	7,824,024	85,550,570	198,024	66,361,240	7,072,085	73,631,349
Noncurrent Assets								
Loans receivable, net of current portion	-	87,512,243	-	87,512,243	-	89,445,504	-	89,445,504
Total Assets	\$ 158,531	\$ 165,080,258	\$ 7,824,024	\$ 173,062,813	\$ 198,024	\$ 155,806,744	\$ 7,072,085	\$ 163,076,853
Liabilities								
Current Liabilities								
Vouchers payable	\$ 150,814	\$ 218,900	\$ -	\$ 369,714	\$ 187,877	\$ 475,972	\$ -	\$ 663,849
Unearned revenue - state match	-	2,200,800	-	2,200,800	-	451,400	-	451,400
Total Current Liabilities	150,814	2,419,700	-	2,570,514	187,877	927,372	-	1,115,249
Net Position								
Net Position - Unrestricted	7,717	162,660,558	7,824,024	170,492,299	10,147	154,879,372	7,072,085	161,961,604
Total Liabilities and Net Position	\$ 158,531	\$ 165,080,258	\$ 7,824,024	\$ 173,062,813	\$ 198,024	\$ 155,806,744	\$ 7,072,085	\$ 163,076,853

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Activities by Classification
Year Ended June 30, 2020 and 2019

	2020				2019			
	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	\$ -	\$ 1,222,331	\$ -	\$ 1,222,331	\$ -	\$ 1,217,781	\$ -	\$ 1,217,781
Interest income - administrative fees	-	-	1,222,376	1,222,376	-	-	1,217,723	1,217,723
Total Operating Revenues	-	1,222,331	1,222,376	2,444,707	-	1,217,781	1,217,723	2,435,504
Operating Expenses								
Salaries and related benefits	1,616,420	-	-	1,616,420	1,764,220	-	50,056	1,814,276
Contract services	936,814	-	471,700	1,408,514	666,301	-	344,582	1,010,883
Grants	-	-	133,513	133,513	-	-	301,719	301,719
Indirect costs	348,979	-	-	348,979	293,135	-	-	293,135
Supplies	159,728	-	87,213	246,941	94,868	-	155,589	250,457
Training	54,006	-	-	54,006	393	-	-	393
Travel	1,603	-	147	1,750	3,485	-	934	4,419
Total Operating Expenses	3,117,550	-	692,573	3,810,123	2,822,402	-	852,880	3,675,282
Operating Income (Loss)	(3,117,550)	1,222,331	529,803	(1,365,416)	(2,822,402)	1,217,781	364,843	(1,239,778)
Nonoperating Revenues and Expenses								
Interest income - cash accounts	-	1,713,246	222,136	1,935,382	-	822,782	124,784	947,566
Grant revenue	3,115,120	5,982,491	-	9,097,611	2,822,037	5,693,759	-	8,515,796
State match	-	451,400	-	451,400	-	-	-	-
Subsidization through principal forgiveness	-	(1,588,282)	-	(1,588,282)	-	(401,813)	-	(401,813)
Total Nonoperating Revenues (Expenses)	3,115,120	6,558,855	222,136	9,896,111	2,822,037	6,114,728	124,784	9,061,549
Transfers in (out)	-	-	-	-	-	1,770,000	(1,770,000)	-
Change in Net Position	(2,430)	7,781,186	751,939	8,530,695	(365)	9,102,509	(1,280,373)	7,821,771
Net Position - Beginning of Year, as adjusted	10,147	154,879,372	7,072,085	161,961,604	10,512	145,776,863	8,352,458	154,139,833
Net Position - End of Year	\$ 7,717	\$ 162,660,558	\$ 7,824,024	\$ 170,492,299	\$ 10,147	\$ 154,879,372	\$ 7,072,085	\$ 161,961,604



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Independent Auditor's 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

Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund
89 Kings Highway
Dover, Delaware 19901

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 years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the State of Delaware Drinking Water Revolving Loan Fund's basic financial statements, and have issued our report thereon dated October 9, 2020.

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) as a basis for designing 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.

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.

Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund

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 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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.

Belfint, Lyons & Shuman, P.A.

October 9, 2020
Wilmington, Delaware

State of Delaware Drinking Water Revolving Loan Fund
Schedule of Findings and Recommendations
Year Ended June 30, 2020

Current Year Findings

No current year findings were identified.

State of Delaware Drinking Water Revolving Loan Fund
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Prior Year Findings

None.