

STATE OF DELAWARE

FINANCIAL STATEMENT AUDIT



Water Pollution Control Revolving Loan Fund Fiscal Year 2021

A Report by
Kathleen McGuinness, RPh, CFE



KATHLEEN
McGUINNESS
DELAWARE
STATE AUDITOR

*State of Delaware
Water Pollution Control
Revolving Loan Fund
Fiscal Year 2021*

What Was Performed? A financial statement audit of the State of Delaware Water Pollution Control Revolving Loan Fund for Fiscal Year 2021 was performed.

Why This Engagement? This engagement was conducted in accordance with 29 *Del. C.* §2906. The State Auditor’s Office conducts post-audits of all financial transactions of state agencies.

The Fund, commonly known as the Clean Water State Revolving Fund, was created by the Delaware Legislature in 1990. The Fund provides low-interest loans and grants to municipalities, private organizations, nonprofit organizations and private individuals for projects that will improve water quality.

What Was Found? It is my pleasure to report this audit contained an unmodified opinion.¹

The State of Delaware Water Pollution Control Revolving Loan Fund financial statement audit for Fiscal Year 2021 can be found on our [website](#).

For any questions regarding the attached report, please contact State Auditor Kathleen K. McGuinness at Kathleen.Mcguinness@delaware.gov.

¹ An unmodified opinion is sometimes referred to as a “clean” opinion. It is one in which the auditor expresses an opinion that the financial statements present fairly, in all material respects, an entity’s financial position, results of operations and cash flows in conformity with generally accepted accounting principles.



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May 9, 2022

Office of Auditor of Accounts
Department of Natural Resources and Environmental Control
State of Delaware Water Pollution Control Revolving Loan Fund
State of Delaware Drinking Water Control Revolving Loan Fund
Dover, Delaware 19901

We have audited the financial statements of the State of Delaware, Delaware Water Pollution Control Revolving Loan Fund and Delaware Drinking Water Revolving Loan Fund (collectively, "The Funds") as of and for the year ended June 30, 2021 and have issued our report thereon dated May 9, 2022. Professional standards require that we advise you of the following matters relating to our audits.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 20, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audits of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audits to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Funds solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audits that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

The audits were not completed in accordance with the planned timing previously communicated to you due to delays encountered in obtaining certain audit documentation.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

In order to eliminate the identified threats to independence associated with our assistance with the preparation of the financial statements, we have ensured a member of firm management, independent of the associated activity, performed a review of the financial statements.



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Department of Natural Resources and Environmental Control
Page 2

Significant Risks Identified

We have identified the following significant risks:

- Management override of controls
- Improper revenue recognition due to error or fraud

Although these significant risks were identified, we designed our audit procedures to mitigate the risks.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Funds is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the allowance for doubtful accounts for loans and leases receivables is based on historical bad debts, historical loss levels, and an analysis of the collectability of individual accounts.

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Funds' financial statements relate to:

- The disclosure of pooled cash – State Treasurer's pool.
- The disclosure of loans and leases receivable.
- The disclosure of the deobligation of federal and state match funds between the Funds.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We encountered no significant unusual transactions during our audits.



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Department of Natural Resources and Environmental Control
Page 3

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audits.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no identified misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Funds' financial statements or the auditor's report. No such disagreements arose during the course of the audits.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We have included emphasis of matter paragraphs in the auditor's report to discuss that the financial statements being reported on are only those of the Funds and do not purport to, and do not present, the financial position of the State of Delaware.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated May 9, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Funds, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Funds' auditors.



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Department of Natural Resources and Environmental Control
Page 4

Restriction on Use

This information is intended solely for the use of the Office of Auditor of Accounts, Department of Natural Resources and Environmental Control and management of the Funds and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC
Harrisburg, Pennsylvania

Table of Contents

	Pages
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 8
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12 - 25
Report Required by Government Auditing Standards	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i>	26 - 27



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INDEPENDENT AUDITOR'S REPORT

To the Management of the Delaware Water Pollution Control Fund
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Water Pollution Control Revolving Loan Fund (the "Fund"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

830 Sir Thomas Court, Suite 100, Harrisburg, PA 17109
3800 McKnight East Drive, Suite 3805, Pittsburgh, PA 15237
34745 Burbage Road, Frankford, DE 19945

2370 York Road, Suite A-5, Jamison, PA 18929
420 Chinquapin Round Road, Suite 2-i, Annapolis, MD 21401
210 Tollgate Hill Road, Greensburg, PA 15601



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Emphasis of Matter

As discussed in Note A, the financial statements present only the Delaware Water Pollution Control 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, 2021, the changes in its financial position, or its cash flows for the year 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 4–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. Information for the sub-funds that comprise the Fund (Federal Administrative Fund, Capital Reserve Loan Fund, and Nonfederal Administrative Fund) presented in the statements of net position on page 9 and the statements of revenues, expenses and changes in net position on page 10 as of and for the year ended June 30, 2021, together referred to as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The June 30, 2021 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 June 30, 2021 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The June 30, 2020 supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

The Fund's June 30, 2020 financial statements were audited by other auditors, who expressed an unmodified audit opinion on those audited financial statements in their report dated October 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2022, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Fund's internal control over financial reporting and compliance.

Harrisburg, Pennsylvania
May 9, 2022

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2021 and 2020

As management of the Delaware Water Pollution Control Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2021 and 2020 (fiscal years 2021 and 2020).

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

Overview of the Financial Statements

This discussion and analysis is an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of two components: Fund financial statements and notes to the financial statements.

Financial Highlights

In fiscal year 2021, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$7,780,000 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2021, DNREC has received Federal Capitalization Grants in an aggregate amount of \$262,591,510 since the inception of the Fund. As of June 30, 2021, the State of Delaware has provided State match funds of \$48,670,484 since the inception of the Fund. The combined total capitalization amount at June 30, 2021 was \$311,261,994 since the inception of the Fund.

The Fund realized operating income of \$2,673,148 in fiscal year 2021, which represents an increase of \$143,310, from the fiscal year ended June 30, 2020 (fiscal year 2020). Contributions from the federal and State governments, which is included in the amount since inception, totaled \$9,336,000 in fiscal year 2021, a <1% increase from fiscal year 2020.

Operating revenues for fiscal year 2021 (including interest income on loans) increased \$84,508 or 2% from the previous year. Operating revenues for fiscal year 2020 (including interest income on loans) increased \$648,688 or 15% from the previous fiscal year.

Loans and lease disbursements made totaled \$42,880,989 during the fiscal year 2021, which represents an increase of \$16,753,575 or 64% from fiscal year 2020. The increase in loan disbursements from fiscal year 2020 to fiscal year 2021 is primarily due to nine loans that closed in fiscal year 2020 and began disbursing in fiscal year 2021. Loans collections totaled \$14,811,838 during fiscal year 2021 which represents an increase of \$303,204 or 2% from fiscal year 2020.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2021 and 2020

Statement of Net Position

The following schedule summarizes the statements of net position (thousands of dollars) of the Fund as of June 30, 2021, 2020 and 2019:

	June 30,		
	2021	2020	2019
Current assets			
Pooled cash and investments	\$ 85,573	\$ 100,459	\$ 97,655
Administrative fees receivable	546	459	317
Interest receivable	584	499	359
Leases receivable, current	270	265	29
Loans receivable, current	<u>14,254</u>	<u>14,055</u>	<u>12,030</u>
Total current assets	<u>101,227</u>	<u>115,737</u>	<u>110,390</u>
Noncurrent assets			
Leases receivable, less current portion	6,443	6,714	6,338
Loans receivable, less current portion	<u>236,210</u>	<u>212,045</u>	<u>202,426</u>
Total noncurrent assets	<u>242,653</u>	<u>218,759</u>	<u>208,764</u>
 Total assets	 <u>\$343,880</u>	 <u>\$ 334,496</u>	 <u>\$319,154</u>
Current liabilities			
Vouchers payable	\$ 888	\$ 3,062	\$ 1,699
Accrued payroll	<u>69</u>	<u>48</u>	<u>51</u>
Total liabilities	957	3,110	1,750
 Net position - unrestricted	 <u>342,923</u>	 <u>331,386</u>	 <u>317,404</u>
 Total liabilities and net position	 <u>\$343,880</u>	 <u>\$ 334,496</u>	 <u>\$319,154</u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2021 and 2020

Statement of Net Position - Continued

The combined total net position of the Fund for the fiscal year ended June 30, 2021 increased by \$11,537,434 from fiscal year 2020, which increased by \$13,982,024 from the fiscal year ended June 30, 2019 (fiscal year 2019).

Pooled cash and investments decreased \$14,886,119 or 15% to \$85,572,877 during fiscal year 2021, as a function of loan collections and federal reimbursements.

Pooled cash and investments increased \$2,803,877 or 3% to \$100,458,996 during fiscal year 2020, as a function of loan collections and federal reimbursements.

There was no unearned income from the State during fiscal year 2021.

There was no unearned income from the State during fiscal year 2020.

Statement of Revenues, Expenses and Changes in Net Position

The following schedule summarizes the statements of revenues, expenses and changes in net position (thousands of dollars) for fiscal years 2021, 2020 and 2019:

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2021 and 2020

Statement of Revenues, Expenses and Changes in Net Position - Continued

	June 30,		
	2021	2020	2019
Operating revenues			
Interest income on loans	\$ 2,389	\$ 2,297	\$ 2,039
Administrative fee revenue	2,690	2,647	2,238
Application fees	2	2	2
Other income	60	110	128
Total operating revenues	<u>5,141</u>	<u>5,056</u>	<u>4,407</u>
Operating expenses			
Reimbursable expenditures under operating grants:			
Personnel costs	1,421	1,274	1,356
Travel	-	3	6
Contractual services	239	540	411
Supplies	46	17	15
Other expenses	5	62	8
Grants made	757	630	786
Total operating expenses	<u>2,468</u>	<u>2,526</u>	<u>2,582</u>
Operating income	<u>2,673</u>	<u>2,530</u>	<u>1,825</u>
Nonoperating revenues (expenses)			
Interest income on deposits	1,325	2,844	1,419
Contributions, EPA	7,780	7,779	7,859
Contributions, State	1,556	1,556	1,572
Loan forgiveness and write-offs	<u>(1,797)</u>	<u>(727)</u>	<u>(382)</u>
Total nonoperating revenues	<u>8,864</u>	<u>11,452</u>	<u>10,468</u>
Change in net position	11,537	13,982	12,293
Net position - beginning	<u>331,386</u>	<u>317,404</u>	<u>305,111</u>
Net position - ending	<u>\$342,923</u>	<u>\$ 331,386</u>	<u>\$317,404</u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2021 and 2020

Statement of Revenues, Expenses and Changes in Net Position - Continued

The Fund reported operating revenues of \$5,140,406 during fiscal year 2021, which represents an increase of \$84,508 or 2% from fiscal year 2020. The Fund reported operating revenues of \$5,055,898 during fiscal year 2020, which represents an increase of \$648,688 or 15% from fiscal year 2019. The increase in the current fiscal year is primarily a result of increased interest and administrative fee income, which were monies received as part of loan repayments. In accordance with the individual loan financing and bond terms, borrowers are required to pay interest and administrative fees on funds disbursed during construction as well as throughout the life of the loan. Due to an increase in new loans issued in the prior year, income from interest and administrative fees increased. The Fund reported an overall increase of \$11,537,434 in total net position for fiscal year 2021, and an overall increase of \$13,982,024 in total net position for fiscal year 2020.

Federal grant revenue increased by \$1,000 or less than 1% during fiscal year 2021, while the State match increased by \$200, or less than 1%.

Federal grant revenue decreased by \$80,000 or 1% during fiscal year 2020, while the State match decreased by \$16,000, or 1%.

Total operating expenses decreased \$58,802 or 2% during fiscal 2021, due to a decrease in contractual services in the Nonfederal Administrative Fund. Total operating expenses decreased \$55,884 or 2% during fiscal 2020, due to a decrease in grants made out of the Nonfederal Administrative Fund.

During fiscal year 2021, the Fund recognized nonoperating expenses of \$1,796,577 for loan forgiveness and write-offs compared to \$726,973 in fiscal year 2020.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances to the users of such data. Requests for additional copies of this report, questions concerning any of the information in this report, and requests for additional financial information should be addressed to:

Laura Robbins
State of Delaware
Department of Natural Resources & Environmental Control
Environmental Finance
97 Commerce Way, Suite 106
Dover, Delaware 19904

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Statements of Net Position
June 30, 2021 and 2020

	2021				2020			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
Current assets								
Pooled cash and investments	\$ 789	\$ 77,555,636	\$ 8,016,452	\$ 85,572,877	\$ -	\$ 93,330,654	\$ 7,128,342	\$ 100,458,996
Administrative fees receivable	-	-	546,500	546,500	-	-	459,392	459,392
Interfund receivable(payable)	-	(595,798)	595,798	-	-	(562,163)	562,163	-
Interest receivable	-	583,889	-	583,889	-	499,210	-	499,210
Leases receivable - current	-	270,395	-	270,395	-	265,067	-	265,067
Loans receivable - current	-	14,253,588	-	14,253,588	-	14,054,830	-	14,054,830
Total current assets	<u>789</u>	<u>92,067,710</u>	<u>9,158,750</u>	<u>101,227,249</u>	<u>-</u>	<u>107,587,598</u>	<u>8,149,897</u>	<u>115,737,495</u>
Noncurrent assets								
Leases receivable, less current portion	-	6,443,473	-	6,443,473	-	6,713,868	-	6,713,868
Loans receivable, less current portion	-	236,209,711	-	236,209,711	-	212,044,555	-	212,044,555
Total noncurrent assets	<u>-</u>	<u>242,653,184</u>	<u>-</u>	<u>242,653,184</u>	<u>-</u>	<u>218,758,423</u>	<u>-</u>	<u>218,758,423</u>
Total assets	<u>\$ 789</u>	<u>\$ 334,720,894</u>	<u>\$ 9,158,750</u>	<u>\$ 343,880,433</u>	<u>\$ -</u>	<u>\$ 326,346,021</u>	<u>\$ 8,149,897</u>	<u>\$ 334,495,918</u>
Current liabilities								
Vouchers payable	\$ -	\$ 888,227	\$ -	\$ 888,227	\$ -	\$ 3,061,953	\$ -	\$ 3,061,953
Accrued payroll	-	-	68,810	68,810	-	-	48,003	48,003
Total liabilities	<u>-</u>	<u>888,227</u>	<u>68,810</u>	<u>957,037</u>	<u>-</u>	<u>3,061,953</u>	<u>48,003</u>	<u>3,109,956</u>
Net position-unrestricted	<u>789</u>	<u>333,832,667</u>	<u>9,089,940</u>	<u>342,923,396</u>	<u>-</u>	<u>323,284,068</u>	<u>8,101,894</u>	<u>331,385,962</u>
Total liabilities and net position	<u>\$ 789</u>	<u>\$ 334,720,894</u>	<u>\$ 9,158,750</u>	<u>\$ 343,880,433</u>	<u>\$ -</u>	<u>\$ 326,346,021</u>	<u>\$ 8,149,897</u>	<u>\$ 334,495,918</u>

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Statements of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021 and 2020

	2021				2020			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
Operating revenues								
Interest income on loans	\$ -	\$ 2,388,835	\$ -	\$ 2,388,835	\$ -	\$ 2,296,782	\$ -	\$ 2,296,782
Administrative fee revenue	-	-	2,689,735	2,689,735	-	-	2,647,075	2,647,075
Application fees	-	2,132	-	2,132	-	1,579	-	1,579
Other income	-	1,094	58,610	59,704	-	2,549	107,913	110,462
Total operating revenues	-	2,392,061	2,748,345	5,140,406	-	2,300,910	2,754,988	5,055,898
Operating expenses								
Reimbursable expenditures under operating grants:								
Personnel costs	511,635	-	909,000	1,420,635	522,036	-	752,335	1,274,371
Travel	-	-	-	-	-	-	3,083	3,083
Contractual services	71,695	2,185	164,916	238,796	39,656	2,391	497,875	539,922
Supplies and office expenses	33,131	-	12,426	45,557	688	-	16,604	17,292
Other expenses	3,411	-	1,769	5,180	58,280	463	3,167	61,910
Grants made	-	-	757,090	757,090	-	-	629,482	629,482
Total operating expenses	619,872	2,185	1,845,201	2,467,258	620,660	2,854	1,902,546	2,526,060
Operating income (loss)	(619,872)	2,389,876	903,144	2,673,148	(620,660)	2,298,056	852,442	2,529,838
Nonoperating revenues and expenses								
Interest income on deposits	-	1,239,961	84,902	1,324,863	-	2,668,489	175,870	2,844,359
Contributions:								
EPA	-	7,780,000	-	7,780,000	-	7,779,000	-	7,779,000
State	-	1,556,000	-	1,556,000	-	1,555,800	-	1,555,800
Loan forgiveness and write-offs	-	(1,796,577)	-	(1,796,577)	-	(726,973)	-	(726,973)
Total nonoperating revenues and expenses	-	8,779,384	84,902	8,864,286	-	11,276,316	175,870	11,452,186
Transfers in (out)	620,661	(620,661)	-	-	620,660	(620,660)	-	-
Change in net position	789	10,548,599	988,046	11,537,434	-	12,953,712	1,028,312	13,982,024
Net position - beginning - unrestricted	-	323,284,068	8,101,894	331,385,962	-	310,330,356	7,073,582	317,403,938
Net position - end - unrestricted	\$ 789	\$ 333,832,667	\$ 9,089,940	\$ 342,923,396	\$ -	\$ 323,284,068	\$ 8,101,894	\$ 331,385,962

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Statements of Cash Flows
Year Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Loan and lease collections	\$ 14,811,838	\$ 14,508,634
Interest received from borrowers	2,304,156	2,156,205
Administrative fee revenue	2,602,627	2,504,831
Application fees and other revenue	61,836	112,041
Loan and lease disbursements	(42,880,989)	(26,127,414)
General expenses paid	(2,446,450)	(2,529,579)
Net cash used in operating activities	(25,546,982)	(9,375,282)
Cash flows from noncapital financing activities		
Grants received from EPA	7,780,000	7,779,000
State portion funded by recipient	1,556,000	1,555,800
Net cash provided by noncapital financing activities	9,336,000	9,334,800
Cash flows from investing activities		
Interest on deposits	1,324,863	2,844,359
Net increase (decrease) in pooled cash and investments	(14,886,119)	2,803,877
Pooled cash and investments - beginning of year	100,458,996	97,655,119
Pooled cash and investments - end of year	\$ 85,572,877	\$ 100,458,996
Reconciliation of net operating income to cash used in operating activities:		
Cash flows from operating activities:		
Operating income	\$ 2,673,148	\$ 2,529,838
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Administrative fees receivable	(87,108)	(142,244)
Interest receivable	(84,679)	(140,577)
Loans receivable	(26,160,491)	(12,370,176)
Leases receivable	265,067	(611,816)
Accrued payroll	20,807	(3,520)
Vouchers payable	(2,173,726)	1,363,213
Net cash used in operating activities	\$ (25,546,982)	\$ (9,375,282)
Schedule of noncash investing activities		
Loan forgiveness, subsidies and write-offs	\$ (1,796,577)	\$ (726,973)

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements
June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies

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

1. General Background

The Fund was created by the 1990 session of the Delaware General Assembly and received its first appropriation from the State of Delaware (the State) on July 1, 1990. The Fund's purpose is to make below-market interest rate loans to local governments, individuals, and other qualifying applicants of the State under the Environmental Protection Agency's (EPA) Capitalization Grants for Clean Water State Revolving Funds (Assistance Listing #66.458) (SRF) federal assistance program. The Fund's enabling legislation empowers the Delaware Department of Natural Resources and Environmental Control (DNREC) to administer the Fund. The federal capitalization grants require the State to provide matching funds equal to 20% of the federal funds received.

2. Type of Entity and Division of Funds

The Fund's activities are accounted for as a distinct operating unit and a Proprietary Fund within DNREC's Office of the Secretary. Accordingly, the financial statements of the Fund are intended to present the financial position, results of operations and cash flows of Proprietary Fund types of only that portion of the funds of the State that are attributable to the transactions of the Fund.

The Fund is divided into three sub-funds:

- The Federal Administrative Fund, which accounts for program-related administrative activities;
- The Capital Reserve Loan Fund, which accounts for capital lending and repayment activities; and
- The Nonfederal Administrative Fund, which accounts for monies that the State has been authorized, by the EPA, to allocate from the SRF program for the State's use. The use of these funds are governed by EPA rules and regulations 40 CFR Part 35 Guidance on Fees Charged by State to Recipients of Clean Water State Revolving Fund Program Assistance.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies - Continued

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 statements of net position. The statements of revenues, expenses and changes in net position present increases (revenues) and decreases (expenses) in total net position.

The Fund utilizes the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), 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.

4. Recognition of Revenues

Federal assistance SRF program 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 are recorded as grants receivable. Amounts received from the State in excess of amounts earned are considered deferred grant revenue and recorded as unearned State match.

To permit comparability to grant revenues earned and fiscal budgets, expenditures reimbursable under the Fund's program guidelines are listed separately by object category and subtotaled in the statement of revenues, expenses and changes in net position.

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies - Continued

5. Pooled Cash and Investments

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

6. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B - Pooled Cash and Investments

Pooled Cash and Investments

Pooled cash and investments as reported on the statements of net position represent the Fund's allocated share of cash, cash equivalents and investments under the control of 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 daily cash balance. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized by risk because they are not evidenced by securities that exist in a physical or book-entry form. Since the Fund's deposits and investments are part of the State's pooled deposits and investments maintained by the Treasurer, the required disclosures are included within the State's financial statements.

The Cash Management Policy Board

The State's policy for the investment of State funds is the responsibility of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to the investment of all money belonging to the State except money in any State pension fund and money held under the State deferred compensation program. The policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note B - Pooled Cash and Investments - Continued

Investment Guidelines and Management

The investment guidelines adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the United States Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements

All State funds are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than “B” by Fitch, Inc.’s Bank Watch Service. The Board has also determined that State’s demand deposits need not be collateralized provided that any bank that holds these funds has for the last two years, a return on average assets of 5% or greater and an average equity - capital ratio of at least 1:20.

If the bank does not meet the above criteria, collateral must consist of one or more of the following:

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

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

Pooled Cash and Investments - Federal Administrative Fund

The pooled cash and investments in the Federal Administrative Fund represent grant funds drawn to pay administrative expenses of the Fund. The grant agreement permits an amount up to one-fifth of one percent of the prior year’s Net Position Balance for these administrative expenses.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note B - Pooled Cash and Investments - Continued

Pooled Cash and Investments - Capital Reserve Loan Fund

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

Pooled Cash and Investments – Nonfederal Administrative Fund

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

Note C - Loans Receivable

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

	2021	2020
Municipal loans		
Sussex County*	\$ 54,096,680	\$ 45,402,602
City of Wilmington	44,715,359	39,403,737
City of Seaford	3,519,541	3,789,442
Kent County	15,995,064	16,401,437
City of Milford	565,896	592,819
New Castle County	23,293,695	17,001,559
Town of Selbyville	821,839	1,012,453
Town of Laurel	887,248	1,051,850
City of Dover	5,121,953	4,783,162
Camden Wyoming Sewer & Water Authority	-	24,933
Town of Millsboro	12,357,645	13,175,615
Town of Bridgeville	2,696,781	2,956,801
City of Lewes	10,191,099	9,007,729
Town of Delmar	643,806	710,141
Town of Georgetown	1,659,557	1,958,423
City of Harrington*	4,399,044	4,610,317
Dewey Beach	-	76,828
Town of Middletown	48,062	95,177
Town of Smyrna	6,760,736	6,590,748

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note C - Loans Receivable - Continued

	<u>2021</u>	<u>2020</u>
Municipal loans (Continued)		
City of Delaware City	664,661	697,193
City of Rehoboth Beach	44,199,275	43,579,012
Town of Harbeson	10,059,265	5,487,731
City of Newark	4,324,670	1,026,521
Less: Principal Subsidization Allowance	<u>(2,872,108)</u>	<u>(1,074,595)</u>
Total municipal loans	<u>244,149,768</u>	<u>218,361,635</u>
ARRA loans		
Sussex County Council	3,956,610	4,298,697
Kent County	<u>464,705</u>	<u>508,704</u>
Total ARRA loans	<u>4,421,315</u>	<u>4,807,401</u>
Septic Rehabilitation Program	1,842,814	2,866,779
Agriculture Nonpoint Source Loans	<u>49,402</u>	<u>63,570</u>
Total loans	<u>\$ 250,463,299</u>	<u>\$ 226,099,385</u>
Current portion	\$ 14,253,588	\$ 14,054,830
Long-term portion	<u>236,209,711</u>	<u>212,044,555</u>
Total loans	<u>\$ 250,463,299</u>	<u>\$ 226,099,385</u>

*Subsidy allowed

Interest charged on these loans ranges from 0% to 3% for both fiscal year 2021 and 2020. Loan maturities vary, based on individual agreements. General Obligation and Municipal Revenue bonds are collateral for municipal loans; business assets and real estate are collateral for other loans.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note C - Loans Receivable - Continued

The loans are shown net of an allowance for doubtful accounts of \$306,562 for fiscal year 2021 and \$307,498 for fiscal year 2020 for accounts in collection. Change in allowance for loan forgiveness for 2021 and 2020 were \$1,796,577 and \$726,973, respectively. Total loans forgiven or written off during fiscal year 2021 and 2020 were \$0 and \$0, respectively.

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.

The allowance for subsidization as of June 30, 2021 and 2020 was \$2,872,108 and \$1,074,595, respectively.

Note D - Leases Receivable

The Fund, as lessor, has entered into agreements with DNREC, the lessee, to finance the construction of water quality improvement projects totaling \$6,713,868 and \$6,978,935 as of June 30, 2021 and 2020, respectively. The leases call for an initial term of five years. The Fund has secured interest in the improvements financed with the proceeds from the lease agreements. Rent is payable twice annually. Lease payments are contingent upon DNREC receiving sufficient revenue or appropriations for the legal payment of the lease agreements. The leases include an option for DNREC to prepay the entire balance of the leases. During fiscal years 2021 and 2020, the Fund disbursed \$0 and \$757,020 under lease agreements, respectively. During fiscal years 2021 and 2020, the Fund collected \$265,067 and \$145,205, respectively, under the lease agreements.

Future minimum lease payments expected to be received for each of the five succeeding fiscal years ending June 30, is as follows:

2022	\$ 270,395
2023	286,481
2024	292,240
2025	298,115
2026	304,077
2027 and beyond	<u>5,262,560</u>
	<u>\$ 6,713,868</u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note E - Significant Source of Revenue - State Revolving Loan Grant

The Fund currently derives a significant portion of its revenue from SRF awards and mandatory State matching funds. The total funds awarded through a series of agreements during the federal capitalization period (October 1, 1990 through June 30, 2021) were \$311,261,994, which includes the federal portion of \$262,591,510, or five-sixths, and the State matching portion of \$48,670,484, or one-sixth.

According to federal program guidelines, the Fund may spend up to one-fifth of the prior year's Net Capital Reserve Loan Fund Balance of the federal awards on administrative expenses. As previously described in Note A, a separate Administrative Fund is used to account for such costs and related revenues.

The table below summarizes funding for the Fund over the capitalization period:

	Federal	State	Total
Awards made through June 30, 2021	\$262,591,510	\$48,670,484	\$311,261,994
Awards expended through June 30, 2021	\$262,591,510	\$48,670,484	\$311,261,994

Note F - Pension Plan

Employees that administer the Fund are considered employees of DNREC and the State and are covered under the State Employees' Pension Plan (the Plan). While the Fund contributed to the Plan \$202,026 for fiscal year 2021 and \$179,210 for fiscal year 2020, respectively, which is included in the financial statements as personnel costs, the Fund is not a reporting unit and does not share in the State Employees' Pension Plan net pension liability.

Detailed information regarding the 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 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
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note F - Pension Plan - 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 the 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. For post-2011 employees – 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 2021 and 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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note F - Pension Plan - Continued

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 position 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 or online at www.delawarepensions.com.

Note G - 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 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. No stand-alone financial report is issued for the OPEB Trust. As of June 30, 2021, the Fund was not allocated any portion of the overall State of Delaware net OPEB liability. Further information is available in the State's Comprehensive Annual Financial Report 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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

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

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, 2021, the State provided health insurance options through several providers.

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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note H - Commitments and Contingencies

1. Operating Lease

Beginning July 1, 1997, DNREC entered into a lease for office space, on behalf of the Fund, of which the Fund currently pays 100%. The operating lease was on a month-to-month basis through February 2019. In February 2019, DNREC entered into an annual lease with options to renew annually for ten years. Rent expense, which is included in the financial statements as contractual services, was \$46,833 and \$54,530 in fiscal year 2021 and 2020, respectively.

2. Loan Commitments

The Fund has met its prior binding commitments (equal to at least one hundred twenty percent (120%) of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2021, there were \$46,256,250 in undisbursed loan proceeds for projects under construction. There was also binding loan commitments of \$41,471,169.

3. Cost Reimbursement Contracts

The Fund derives all of its non-operating revenue from SRF Program and mandatory State matching funds which are contracts based on the reimbursement of allowance costs related to the program. Costs are subject to review by the EPA. Management does not believe there are any adjustments that could arise from disallowed costs that would materially impact the Fund's financial statements.

4. Deobligation of the Drinking Water State Revolving Loan Fund Grants

On September 4, 2012, the EPA deobligated \$27,050,177 of the Drinking Water State Revolving Fund (DWSRF) federal capitalization grant and awarded it to the Fund. As part of the deobligation, \$5,410,035 initially appropriated to the DWSRF, which represented the required 20% state match, was also appropriated to the Fund.

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note I - Risk Management

The Fund is insured under the State's insurance plans. The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund.

The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

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, 2021, there were no outstanding or pending claims against the Fund.

Note J - American Recovery and Reinvestment Act of 2009

During the fiscal year ended June 30, 2009, the Fund was awarded additional funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009 in the amount of \$19,239,100. The Fund began processing various loan applications and began disbursing the funds in fiscal year 2011. The loan agreements state that each loan will be granted principal forgiveness of between 25% and 100% of the loan amount upon completion of the project. During fiscal year 2021 and 2020, the Fund forgave \$0 in ARRA loans.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2021 and 2020

Note K - Nonfederal Administrative Fund

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

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

During the fiscal year ended June 30, 2021, the Nonfederal Administrative Fund funded the following:

SEFO grants	\$ 380,777
Wastewater matching planning grants	39,298
DNREC other program matching planning grants	<u>337,015</u>
Total	<u>\$ 757,090</u>

Note L -Risks and Uncertainties

As the effects of the Coronavirus pandemic continue to evolve and are dependent upon future developments, the related impact on the Fund's operations and financial development and duration cannot be reasonably estimated at this time.

Note M - Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through May 9, 2022, the date the financial statements were available to be issued.



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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

INDEPENDENT AUDITOR'S REPORT

To the Management of the Delaware Water Pollution Control Revolving Loan Fund
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Delaware Water Pollution Control Revolving Loan Fund (the "Fund"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated May 9, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 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*.

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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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrisburg, Pennsylvania
May 9, 2022

Zelenkofske Axlerod LLC

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