



STATE OF DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND

FINANCIAL STATEMENT AUDIT
FOR FISCAL YEARS ENDED JUNE 30, 2021
AND JUNE 30, 2022

Report Summary

State of Delaware Water Pollution Control Revolving Loan Fund Financial Statement Audit and Report on Internal Controls Over Financial Reporting Fiscal Years 2022 and 2021



What Was Performed?

A financial statement audit of the State of Delaware Water Pollution Control Revolving Loan Fund for Fiscal Year Ended June 30, 2022 and 2021 was performed. This audit also includes a review of internal controls over financial reporting and on compliance and other matters.

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 State of Delaware Legislature in 1990.

The Fund provides below market rate interest rate loans and grants to municipalities, private organizations, nonprofit organizations, individuals, and other qualifying applicants of the state for projects that will improve water quality under the Environmental Protection Agency's (EPA) Capitalization Grants for Clean Water State Revolving Funds federal assistance program. The federal capitalization grants require the State to provide matching funds to provide matching funds equal to 20% of federal funds received. The Delaware Department of Natural Resources and Environmental Control (DNREC) administers the fund.

What Was Found?

It is my pleasure to report this audit contains an unmodified opinion.¹

The combined total net position of the Fund for the fiscal year ended June 30, 2022 increased by \$9,880,354 from fiscal year 2021, which increased by \$11,530,461 from the fiscal year ended June 30, 2020 (fiscal year 2020).

The Fund realized operating income of \$2,425,961 in fiscal year 2022, which represents a decrease of \$306,073, from the fiscal year ended June 30, 2021 (fiscal year 2021).

Loans and note disbursements made totaled \$20,743,772 during the fiscal year 2022, which represents a decrease of \$22,137,217 or 52% from fiscal year 2021.

The Fund, through note disbursements, has entered into agreements with DNREC to finance the construction of water quality improvement projects totaling \$6,548,424 and \$6,713,868 as of June 30, 2022 and 2021, respectively.

The State of Delaware Water Pollution Control Revolving Loan Fund financial statement audit report for Fiscal Year 2022 and 2021 can be found on our website: [Click Here](#)

For any questions regarding the attached report, please contact OAOA_Comms@delaware.gov.

¹An 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.

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

**Financial Statements
Fiscal Years Ended June 30, 2022 and 2021**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the State of Delaware Water Pollution Control Revolving Loan Fund (the "Fund"), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2022 and 2021, 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.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly after.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note A, the financial statements present only the State of Delaware Water Pollution Control Revolving Loan Fund and are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the Fund that is attributable to the transaction of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Delaware, as of June 30, 2022 and 2021, and the changes in its financial position and 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 4–8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



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Other Information

Our audits were 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 schedule of net position by sub-fund on page 29 and the schedule of activities by sub-fund on page 30 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 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 audits 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 April 17, 2023, 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 solely 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
April 17, 2023

Zelenkofske Axlerod LLC
ZELENKOFKSKE AXELROD LLC

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2022 and 2021

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, 2022 and 2021 (fiscal years 2022 and 2021).

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 2022, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$7,779,000 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2022, DNREC has received Federal Capitalization Grants in an aggregate amount of \$270,370,510 since the inception of the Fund. As of June 30, 2022, the State of Delaware has provided State match funds of \$50,226,284 since the inception of the Fund. The combined total capitalization amount at June 30, 2022 was \$320,596,794 since the inception of the Fund.

The Fund realized operating income of \$2,425,961 in fiscal year 2022, which represents a decrease of \$306,073, from the fiscal year ended June 30, 2021 (fiscal year 2021). Contributions from the federal and State governments, which is included in the amount since inception, totaled \$9,334,800 in fiscal year 2022, a <1% decrease from fiscal year 2021.

Operating revenues for fiscal year 2022 (including interest income on loans) increased \$25,966 or less than 1% from the previous year. Operating revenues for fiscal year 2021 (including interest income on loans) increased \$84,508 or 2% from the previous fiscal year.

Loans and note disbursements made totaled \$20,743,772 during the fiscal year 2022, which represents a decrease of \$22,137,217 or 52% from fiscal year 2021. The decrease in loan disbursements from fiscal year 2021 to fiscal year 2022 is primarily due to several loans that were disbursed in fiscal year 2021. Loans and note collections totaled \$29,769,126 during fiscal year 2022 which represents an increase of \$14,957,288 or 101% from fiscal year 2021.

The Fund implemented GASB 87 in fiscal year 2022 for fiscal years 2022 and 2021. The Fund was required to recognize a lease liability and an intangible right-to-use asset for its shared office spaces and copiers. The intangible right-to-use asset decreased by \$51,948 or 18% from fiscal year 2021. The intangible right-of-use asset increased \$296,010 from \$0 in fiscal year 2021. The related lease liability decreased \$46,595 or 15%, in fiscal year 2022. The lease liability increased \$302,983, from \$0 in fiscal 2021.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2022 and 2021

Statement of Net Position

The following schedule summarizes the statements of net position (thousands of dollars) of the Fund as of June 30, 2022, 2021 and 2020:

	June 30,		
	2022	2021	2020
Current assets			
Pooled cash and investments	\$106,307	\$ 85,573	\$100,459
Administrative fees receivable	555	546	459
Interest receivable	589	584	499
Loans receivable, current	11,999	14,254	14,055
Notes receivable, current	260	270	265
Total current assets	<u>119,710</u>	<u>101,227</u>	<u>115,737</u>
Noncurrent assets			
Operating right-of-use asset	244	296	-
Loans receivable, less current portion	227,562	236,210	212,045
Notes receivable, less current portion	6,288	6,443	6,714
Total noncurrent assets	<u>234,094</u>	<u>242,949</u>	<u>218,759</u>
Total assets	<u>\$353,804</u>	<u>\$ 344,176</u>	<u>\$334,496</u>
Current liabilities			
Vouchers payable	\$ 588	\$ 888	\$ 3,062
Accrued payroll	77	69	48
Short term lease liability	48	47	-
Due to 21st Century	85	-	-
Total current liabilities	<u>798</u>	<u>1,004</u>	<u>3,110</u>
Long term liabilities			
Long term lease liability	209	256	-
Total liabilities	1,007	1,260	3,110
Net position - unrestricted	<u>352,797</u>	<u>342,916</u>	<u>331,386</u>
Total liabilities and net position	<u>\$353,804</u>	<u>\$ 344,176</u>	<u>\$334,496</u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2022 and 2021

Statement of Net Position - Continued

The combined total net position of the Fund for the fiscal year ended June 30, 2022 increased by \$9,880,354 from fiscal year 2021, which increased by \$11,530,461 from the fiscal year ended June 30, 2020 (fiscal year 2020).

Pooled cash and investments increased \$20,733,760 or 24% to \$106,306,637 during fiscal year 2022, as a function of loan collections and federal reimbursements.

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.

There was no unearned income from the State during fiscal year 2022.

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

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 2022, 2021 and 2020:

	June 30,		
	2022	2021	2020
Operating revenues			
Interest income on loans	\$ 2,511	\$ 2,389	\$ 2,297
Administrative fee revenue	2,617	2,690	2,647
Application fees	2	2	2
Other income	37	60	110
Total operating revenues	5,167	5,141	5,056
Operating expenses			
Reimbursable expenditures under operating grants:			
Personnel costs	1,460	1,421	1,274
Travel	3	-	3
Contractual services	217	180	540
Supplies	30	46	17
Other expenses	2	5	62
Grants made	1,029	757	630
Total operating expenses	2,741	2,409	2,526
Operating income	2,426	2,732	2,530

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2022 and 2021

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

	June 30,		
	2022	2021	2020
Nonoperating revenues (expenses)			
Amortization expense	(52)	(52)	-
Interest on capital lease	(9)	(14)	-
Interest income on deposits	-	1,325	2,844
Contributions, EPA	7,779	7,780	7,779
Contributions, State	1,556	1,556	1,556
Loan forgiveness and write-offs	(1,819)	(1,797)	(727)
Total nonoperating revenues	<u>7,455</u>	<u>8,798</u>	<u>11,452</u>
Change in net position	9,881	11,530	13,982
Net position - beginning	<u>342,916</u>	<u>331,386</u>	<u>317,404</u>
Net position - ending	<u>\$352,797</u>	<u>\$ 342,916</u>	<u>\$331,386</u>

The Fund reported operating revenues of \$5,166,372 during fiscal year 2022, which represents an increase of \$25,966 or 1% from fiscal year 2021. 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 increase in the current fiscal year is primarily a result of increased interest income on loans, 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 \$9,880,354 in total net position for fiscal year 2022, and an overall increase of \$11,530,461 in total net position for fiscal year 2021.

Federal grant revenue decreased by \$1,000 or less than 1% during fiscal year 2022, while the State match decreased by \$200, or less than 1%.

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%.

Total operating expenses increased \$332,039 or 14% during fiscal 2022, due to an increase in contractual services and grants made from the Nonfederal Administrative Fund. Total operating expenses decreased \$51,829 or 2% during fiscal 2021, due to a decrease in contractual services in the Nonfederal Administrative Fund.

During fiscal year 2022, the Fund recognized nonoperating expenses of \$1,819,297 for loan forgiveness and write-offs compared to \$1,796,577 in fiscal year 2021.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2022 and 2021

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Current assets		
Pooled cash and investments	\$ 106,306,637	\$ 85,572,877
Administrative fees receivable	554,600	546,500
Interest receivable	588,567	583,889
Loans receivable - current	11,999,066	14,253,588
Notes receivable - current	260,293	270,395
Total current assets	<u>119,709,163</u>	<u>101,227,249</u>
Noncurrent assets		
Right-of-use asset	244,062	296,010
Loans receivable, less current portion	227,561,951	236,209,711
Notes receivable, less current portion	6,288,131	6,443,473
Total noncurrent assets	<u>234,094,144</u>	<u>242,949,194</u>
Total assets	<u><u>\$ 353,803,307</u></u>	<u><u>\$ 344,176,443</u></u>
Current liabilities		
Vouchers payable	\$ 588,241	\$ 888,227
Accrued payroll	77,421	68,810
Short term lease liability	47,629	46,595
Due to 21st Century	84,480	-
Total current liabilities	<u>797,771</u>	<u>1,003,632</u>
Long term liabilities		
Long term lease liability	208,759	256,388
Total long term liabilities	<u>208,759</u>	<u>256,388</u>
Total liabilities	1,006,530	1,260,020
Net position-unrestricted	<u>352,796,777</u>	<u>342,916,423</u>
Total liabilities and net position	<u><u>\$ 353,803,307</u></u>	<u><u>\$ 344,176,443</u></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, 2022 and 2021

	2022	2021
Operating revenues		
Interest income on loans	\$ 2,510,557	\$ 2,388,835
Administrative fee revenue	2,616,981	2,689,735
Application fees	1,885	2,132
Other income	36,949	59,704
Total operating revenues	<u>5,166,372</u>	<u>5,140,406</u>
Operating expenses		
Reimbursable expenditures under operating grants:		
Personnel costs	1,459,496	1,420,635
Travel	2,994	-
Contractual services	217,017	179,910
Supplies and office expenses	29,816	45,557
Other expenses	2,467	5,180
Grants made	1,028,621	757,090
Total operating expenses	<u>2,740,411</u>	<u>2,408,372</u>
Operating income (loss)	<u>2,425,961</u>	<u>2,732,034</u>
Nonoperating revenues and expenses		
Amortization expense	(51,949)	(51,949)
Interest on capital lease	(9,161)	(13,910)
Interest income on deposits	-	1,324,863
Contributions:		
EPA	7,779,000	7,780,000
State	1,555,800	1,556,000
Loan forgiveness and write-offs	<u>(1,819,297)</u>	<u>(1,796,577)</u>
Total nonoperating revenues and expenses	<u>7,454,393</u>	<u>8,798,427</u>
Transfers in	<u>646,568</u>	<u>620,661</u>
Transfers out	<u>(646,568)</u>	<u>(620,661)</u>
Change in net position	9,880,354	11,530,461
Net position - beginning - unrestricted	<u>342,916,423</u>	<u>331,385,962</u>
Net position - end - unrestricted	<u>\$ 352,796,777</u>	<u>\$ 342,916,423</u>

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Statements of Cash Flows
Year Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Loan and note collections	\$ 29,769,126	\$ 14,811,838
Interest received from borrowers	2,505,879	2,304,156
Administrative fee revenue	2,608,881	2,602,627
Application fees and other revenue	38,834	61,836
Loan and Note disbursements	(20,743,772)	(42,880,989)
General expenses paid	(2,724,232)	(2,390,589)
Net cash provided by (used in) operating activities	<u>11,454,716</u>	<u>(25,491,121)</u>
Cash flows from noncapital financing activities		
Grants received from EPA	7,779,000	7,780,000
State portion funded by recipient	1,555,800	1,556,000
Net cash provided by noncapital financing activities	<u>9,334,800</u>	<u>9,336,000</u>
Cash Flows from capital and related financing activities		
Principal paid on capital debt	(46,595)	(41,951)
Interest paid on capital debt	(9,161)	(13,910)
Net cash used in capital and related financing activities	<u>(55,756)</u>	<u>(55,861)</u>
Cash flows from investing activities		
Interest on deposits	-	1,324,863
Net increase (decrease) in pooled cash and investments	20,733,760	(14,886,119)
Pooled cash and investments - beginning of year	<u>85,572,877</u>	<u>100,458,996</u>
Pooled cash and investments - end of year	<u>\$ 106,306,637</u>	<u>\$ 85,572,877</u>
Reconciliation of net operating income to cash provided by (used in) operating activities:		
Cash flows from operating activities:		
Operating income	\$ 2,425,961	\$ 2,732,034
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Administrative fees receivable	(8,100)	(87,108)
Interest receivable	(4,678)	(84,679)
Loans receivable	9,082,984	(26,163,516)
Notes receivable	165,444	265,067
Accrued payroll	8,611	20,807
Vouchers payable	(299,986)	(2,173,726)
Due to 21st century	84,480	-
Net cash provided by (used in) operating activities	<u>\$ 11,454,716</u>	<u>\$ (25,491,121)</u>
Schedule of noncash investing activities		
Loan forgiveness, subsidies and write-offs	\$ (1,819,297)	\$ (1,796,577)
Assets acquired through lease	-	347,959
Change in debt related to financing lease	-	344,934
Total noncash activities	<u>\$ (1,819,297)</u>	<u>\$ (1,103,684)</u>

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements
June 30, 2022 and 2021

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 State 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, 2022 and 2021

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 statements 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, 2022 and 2021

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.

7. Change in Accounting Method

Adoption of GASB Statement - In Fiscal Year 2022, the Fund adopted GASB Statement No. 87, *Leases* (Statement) effective as of July 1, 2020, the first day of the Fund's earliest fiscal year presented. This statement requires recognition of certain lease assets and liabilities for leases that may have previously been classified as operating leases as well as the corresponding recognition as deferred inflows or deferred outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Due to the adoption of the standard, the June 30, 2021 change in net position was decreased by \$6,973, assets increased by \$296,010 and liabilities increased by \$302,983

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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note B - Pooled Cash and Investments - Continued

Pooled Cash and Investments - Continued

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/>).

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:

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note B - Pooled Cash and Investments - Continued

Collateralization Requirements - Continued

- 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.

Pooled Cash and Investments - Capital Reserve Loan Fund

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

Pooled Cash and Investments - Administrative Fees

The pooled cash and investments from administrative fees on municipal loans 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:

	2022	2021
Municipal loans		
Sussex County*	\$ 56,071,096	\$ 54,096,680
City of Wilmington	47,399,211	44,715,359
City of Seaford	3,242,419	3,519,541
Kent County	14,610,871	15,995,064
City of Milford	483,501	565,896

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note C - Loans Receivable - Continued

	2022	2021
Municipal loans		
New Castle County	\$ 25,408,235	\$ 23,293,695
Town of Selbyville	625,463	821,839
Town of Laurel	718,504	887,248
City of Dover	5,006,868	5,121,953
Town of Millsboro	-	12,357,645
Town of Bridgeville	-	2,696,781
City of Lewes	9,338,192	10,191,099
Town of Delmar	576,473	643,806
Town of Georgetown	1,375,054	1,659,557
City of Harrington*	2,978,597	4,399,044
Town of Middletown	-	48,062
Town of Smyrna	7,510,356	6,760,736
City of Delaware City	631,476	664,661
City of Rehoboth Beach	42,814,290	44,199,275
Town of Harbeson	9,622,187	10,059,265
City of Newark	9,361,169	4,324,670
Less: principal subsidization allowance	(4,168,972)	(2,872,108)
Total municipal loans	233,604,990	244,149,768
ARRA loans		
Sussex County Council	3,608,596	3,956,610
Kent County	419,822	464,705
Total ARRA loans	4,028,418	4,421,315
Septic Rehabilitation Program	1,885,580	1,842,814
Agriculture nonpoint source loans	42,029	49,402
Total loans	\$ 239,561,017	\$ 250,463,299
Current portion	\$ 11,999,066	\$ 14,253,588
Long-term portion	227,561,951	236,209,711
Total loans	\$ 239,561,017	\$ 250,463,299

*Subsidy allowed

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note C - Loans Receivable - Continued

Interest charged on these loans ranges from 0% to 6% for both fiscal year 2022 and 2021. 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.

The loans are shown net of an allowance for doubtful accounts of \$289,360 for fiscal year 2022 and \$306,562 for fiscal year 2021 for accounts in collection. Change in allowance for loan forgiveness and subsidization for 2022 and 2021 were \$1,801,790 and \$1,796,577, respectively. Total loans forgiven or written off during fiscal year 2022 and 2021 were \$17,507 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, 2022 and 2021 was \$4,168,972 and \$2,872,108, respectively.

Note D - Notes Receivable

The Fund, as lender, has entered into agreements with DNREC, the borrower, to finance the construction of water quality improvement projects totaling \$6,548,424 and \$6,713,868 as of June 30, 2022 and 2021, respectively. The notes call for an initial term of twenty years. The Fund has secured interest in the improvements financed with the proceeds from the agreements. Payments are payable twice annually. Payments are contingent upon DNREC receiving sufficient revenue or appropriations for the legal payment of the note agreements. The notes include an option for DNREC to prepay the entire balance of the notes. During fiscal years 2022 and 2021, the Fund disbursed \$0 and \$0 under note agreements, respectively. During fiscal years 2022 and 2021, the Fund collected \$165,444 and \$265,067, respectively, under the note agreements.

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note D - Notes Receivable - Continued

2023	\$ 260,293
2024	281,374
2025	287,029
2026	292,799
2027	298,683
2028- 2032	1,585,921
2033 - 2037	1,595,782
2038 - 2040	<u>1,946,543</u>
	<u>\$ 6,548,424</u>

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, 2022) were \$320,596,794, which includes the federal portion of \$270,370,510, or five-sixths, and the State matching portion of \$50,226,284, 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, 2022	\$ 270,370,510	\$ 50,226,284	\$ 320,596,794
Awards expended through June 30, 2022	\$ 270,370,510	\$ 50,226,284	\$ 320,596,794

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 \$211,533 for fiscal year 2022 and \$202,026 for fiscal year 2021, 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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note F - Pension Plan – Continued

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)

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 12.45% and 12.33% for fiscal year 2022 and 2021.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note F - Pension Plan – Continued

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 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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

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

Eligibility - Continued:

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, 2022, 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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

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

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 H - Commitments and Contingencies

1. 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, 2022, there were \$54,680,552 in undisbursed loan proceeds for projects under construction. There was also binding loan commitments of \$70,199,898.

2. 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.

3. 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.

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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note I - Risk Management - Continued

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, 2022, 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 2022 and 2021, the Fund forgave \$0 in ARRA loans.

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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note K - Nonfederal Administrative Fund – Continued

During the fiscal year ended June 30, 2022, the Nonfederal Administrative Fund funded the following:

SEFO grants	\$ 407,555
Wastewater matching planning grants	113,867
DNREC other program matching planning grants	<u>507,199</u>
Total	<u>\$ 1,028,621</u>

Note L - Leases

The Fund implemented GASB No. 87 for the year ended June 30, 2021, and, as such, the Fund recognizes a lease liability and an intangible right-to-use asset in the accompanying financial statements. The lease liabilities were discounted to a net present value at July 1, 2020 using a 3.25% interest rate.

At the commencement of a lease, the Fund initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured at the initial amount of the lease liability, adjusted for lease payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Fund determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments as follows:

- The Fund uses the interest rate charged by the lessor as the discount rate if provided; otherwise, the Fund generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Fund is reasonably certain to exercise.
- The Fund monitors changes in circumstance that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

Note L – Leases - Continued

Lease assets are reported as capital assets and lease liabilities are reported as long-term debt on the accompanying statement of net position.

The Fund is leasing shared office spaces through October 2027 with an allocation of 84% of the lease being allocated to the Fund. Lease payments are due monthly with an increase of 2% annually.

The Fund entered into a shared lease agreement for a copier with an allocation of 84% being paid by the Fund. The copier lease will expire in January 2023.

For the years ended June 30, 2022 and 2021, respectively, lease expense and lease interest expense reported on the statement of net activities, Nonfederal Administration Fund, Contractual services were:

	Year Ending 2022	Year Ending 2021
Lease expense	<u> </u>	<u> </u>
Amortization expense by class of underlying asset		
Office Space	\$ 48,398	\$ 48,398
Copy Machine	<u>3,551</u>	<u>3,551</u>
Total amortization expense	51,949	51,949
Interest on lease liabilities	<u>9,161</u>	<u>13,910</u>
Total	<u><u>\$ 61,110</u></u>	<u><u>\$ 65,859</u></u>

Future lease payments due to the Fund under the lease contracts are:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
Year Ending 2023	\$ 47,629	\$ 7,616	\$ 55,245
Year Ending 2024	48,058	6,077	54,135
Year Ending 2025	50,731	4,475	55,206
Year Ending 2026	53,536	2,785	56,321
Year Ending 2027	<u>56,434</u>	<u>1,003</u>	<u>57,437</u>
Total Future Payments	<u><u>\$ 256,388</u></u>	<u><u>\$ 21,956</u></u>	<u><u>\$ 278,344</u></u>

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Notes to Financial Statements - Continued
June 30, 2022 and 2021

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 April 17, 2023, 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 (*Government Auditing Standards*), the financial statements of the Delaware Water Pollution Control Revolving Loan Fund (the "Fund"), as of and for the years ended June 30, 2022 and 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 April 17, 2023.

Report on 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 opinions 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 or significant deficiencies may exist that were not identified.

Report on 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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Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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
April 17, 2023

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC