



# STATE OF DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND

---

FINANCIAL STATEMENT AUDIT  
FISCAL YEARS ENDED JUNE 30, 2022 AND 2023



# STATE OF DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND

## REPORT SUMMARY FOR FISCAL YEARS ENDED JUNE, 30, 2022., 2023

### BACKGROUND

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 United States 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 equal to 20% of federal funds received.

During fiscal year ended June 30, 2023, the Fund received additional grants funded by the Infrastructure Investment and Jobs Act (IIJA) which provides funds for the Clean Water State Revolving Fund Program.

The Delaware Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS) administers the fund.

This engagement was conducted in accordance with 29 Del. C. §2906.

### KEY INFORMATION AND FINDINGS

This audit contains an unmodified opinion on the financial statements. An unmodified opinion is sometimes referred to as a "clean" opinion, in which the auditor expresses an opinion that the financial statements are presented fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. There were no findings required to be reported under Government Auditing Standards.

#### Clean Water Revolving Fund (In Thousands, 2019-2023)

	2023	2022	2021	2020	2019
Net Position	\$ 360,159	\$ 352,797	\$ 342,916	\$ 331,386	\$ 317,404
Pooled Cash & Investments	\$ 121,581	\$ 106,307	\$ 85,573	\$ 100,459	\$ 97,655

In fiscal Year 2023, DNREC received a Federal Capitalization Grant for \$3,953,364 from the U.S. Environmental Protection Agency (EPA). The combined total capitalization amount on June 30, 2023 was \$328,287,794 since inception of the fund. During fiscal year 2023, DNREC received additional funds from IIJA in the amount of \$459,000 for the Emerging Containments and \$8,738,000 for the General Supplemental grants. No amounts were expended under these grants at June 30, 2023.

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

\*\*\*\*\*

**Financial Statements  
Fiscal Years Ended June 30, 2023 and 2022**

## Table of Contents

\*\*\*\*\*

	Pages
<b>Independent Auditor's Report</b>	1 - 3
<b>Management's Discussion and Analysis</b>	4 - 8
<b>Financial Statements</b>	
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 - 26
<b>Supplemental Information</b>	27
Schedule of Fund Net Position by Sub-Fund	28
Schedule of Activities by Sub-Fund	29
<b>Report Required by Government Auditing Standards</b>	
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>	30 – 31

\*\*\*\*\*



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

## 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, 2023 and 2022, 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, 2023 and 2022, 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* (GAS), 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 thereafter.

#### ***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 and GAS 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.

---

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

[www.zallc.org](http://www.zallc.org)



# *Zelenkofske Axelrod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

In performing an audit in accordance with GAAS and GAS, 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 transactions 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, 2023 and 2022, 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.



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

## *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 28 and the schedule of activities by sub-fund on page 29 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 23, 2024, 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 23, 2024

*Zelenkofske Axlerod LLC*

ZELENKOFSCHE AXELROD LLC

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis**  
**June 30, 2023 and 2022**

---

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, 2023 and 2022 (fiscal years 2023 and 2022).

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 2023, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$3,953,364 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2023, DNREC has received Federal Capitalization Grants in an aggregate amount of \$276,051,510 since the inception of the Fund. As of June 30, 2023, the State of Delaware has provided State match funds of \$52,236,284 since the inception of the Fund. The combined total capitalization amount at June 30, 2023 was \$328,287,794 since the inception of the Fund.

During fiscal year ended June 30, 2023, the Fund received additional grants funded by the Infrastructure Investment and Jobs Act which provides funds for the Clean Water State Revolving Fund program; the new grants are known as Emerging Contaminants Grant and the General Supplemental Grant. The funding received in fiscal year ended June 30, 2023 was \$459,000 and \$8,738,000 for the Emerging Contaminants and General Supplemental grants, respectively. No amounts were expended under the grants at June 30, 2023.

The Fund realized operating income of \$3,164,942 in fiscal year 2023, which represents an increase of \$738,981, from the fiscal year ended June 30, 2022 (fiscal year 2022). Contributions from the federal and state governments, which is included in the amount since inception, totaled \$5,963,364 in fiscal year 2023, a 36% decrease from fiscal year 2022.

Operating revenues for fiscal year 2023 (including interest income on loans) increased \$1,062,205 or 21% from the previous year. Operating revenues for fiscal year 2022 (including interest income on loans) increased \$25,966 or less than 1% from the previous fiscal year.

Loans and note disbursements made totaled \$10,903,534 during the fiscal year 2023, which represents a decrease of \$9,840,238 or 47% from fiscal year 2022. The decrease in loan disbursements from fiscal year 2022 to fiscal year 2023 is primarily due to several loans that were disbursed in fiscal year 2022. Loans and note collections totaled \$17,049,332 during fiscal year 2023, which represents a decrease of \$12,719,794 or 43% from fiscal year 2022.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2023 and 2022**

**Financial Highlights - Continued**

The intangible right-of-use asset decreased by \$50,470 or 21% from fiscal year 2022. The intangible right-of-use asset decreased by \$51,949 or 18% from fiscal year 2021. The related lease liability decreased \$47,629 or 19%, in fiscal year 2023. The lease liability decreased by \$46,595 in fiscal 2022.

**Statement of Net Position**

The following schedule summarizes the statements of net position (thousands of dollars) of the Fund as of June 30, 2023, 2022 and 2021:

	June 30,		
	2023	2022	2021
<b>Current assets</b>			
Pooled cash and investments	\$ 121,581	\$ 106,307	\$ 85,573
Administrative fees receivable	546	555	546
Interest receivable	572	589	584
Federal grant receivable	1,321	-	-
Loans receivable, current	14,574	11,999	270
Notes receivable, current	281	260	14,254
<b>Total current assets</b>	<u>138,875</u>	<u>119,710</u>	<u>101,227</u>
<b>Noncurrent assets</b>			
Operating right-of-use asset	194	244	296
Notes receivable, less current portion	5,886	6,288	6,443
Loans receivable, less current portion	216,781	227,562	236,210
<b>Total noncurrent assets</b>	<u>222,861</u>	<u>234,094</u>	<u>242,949</u>
<b>Total assets</b>	<u>\$ 361,736</u>	<u>\$ 353,804</u>	<u>\$ 344,176</u>
<b>Current liabilities</b>			
Vouchers payable	\$ 5	\$ 588	\$ 888
Accrued payroll	47	77	69
Short term lease liability	48	48	47
Due to State	1,316	-	-
Due to 21st Century	-	85	-
<b>Total current liabilities</b>	<u>1,416</u>	<u>798</u>	<u>1,004</u>

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2023 and 2022**

**Statement of Net Position – Continued**

	June 30,		
	2023	2022	2021
Long term liabilities			
Long term lease liability	161	209	256
Total liabilities	1,577	1,007	1,260
Net position - unrestricted	360,159	352,797	342,916
Total liabilities and net position	<u>\$361,736</u>	<u>\$ 353,804</u>	<u>\$344,176</u>

The combined total net position of the Fund for the fiscal year ended June 30, 2023 increased by \$7,362,546 from fiscal year 2022, which increased by \$9,880,354 from the fiscal year ended June 30, 2021 (fiscal year 2021).

Pooled cash and investments increased \$15,274,357 or 14% to \$121,580,994 during fiscal year 2023, as a function of loan collections and federal reimbursements.

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.

There was no unearned income from the State during fiscal year 2023.

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

**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 2023, 2022 and 2021:

	June 30,		
	2023	2022	2021
Operating revenues			
Interest income on loans	\$ 3,572	\$ 2,511	\$ 2,389
Administrative fee revenue	2,615	2,617	2,690
Application fees	1	2	2
Other income	40	37	60
Total operating revenues	<u>6,228</u>	<u>5,167</u>	<u>5,141</u>

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2023 and 2022**

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

	June 30,		
	2023	2022	2021
Operating expenses			
Reimbursable expenditures under operating grants:			
Personnel costs	1,604	1,460	1,421
Travel	3	3	-
Contractual services	260	217	180
Supplies	22	30	46
Other expenses	79	2	5
Grants made	<u>1,095</u>	<u>1,029</u>	<u>757</u>
Total operating expenses	<u>3,063</u>	<u>2,741</u>	<u>2,409</u>
Operating income	<u>3,165</u>	<u>2,426</u>	<u>2,732</u>
Nonoperating revenues (expenses)			
Amortization expense	(50)	(52)	(52)
Interest on capital lease	(8)	(9)	(14)
Interest income on deposits	74	-	1,325
Contributions, EPA	3,953	7,779	7,780
Contributions, State	2,010	1,556	1,556
Loan forgiveness and write-offs	<u>(1,782)</u>	<u>(1,819)</u>	<u>(1,797)</u>
Total nonoperating revenues	<u>4,197</u>	<u>7,455</u>	<u>8,798</u>
Change in net position	7,362	9,881	11,530
Net position - beginning	<u>352,797</u>	<u>342,916</u>	<u>331,386</u>
Net position - ending	<u><u>\$360,159</u></u>	<u><u>\$ 352,797</u></u>	<u><u>\$342,916</u></u>

The Fund reported operating revenues of \$6,228,577 during fiscal year 2023, which represents an increase of \$1,062,205 or 21% from fiscal year 2022. 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 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.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2023 and 2022**

---

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

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 \$7,362,546 in total net position for fiscal year 2023, and an overall increase of \$9,880,354 in total net position for fiscal year 2022.

Federal grant revenue decreased by \$3,825,636 or 49% during fiscal year 2023, while the state match increased by \$454,200, or 29%.

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%.

Total operating expenses increased \$323,224 or 12% during fiscal 2023, due to an increase in personnel costs, contractual services and grants made from the Nonfederal Administrative Fund. Total operating expenses increased \$332,039 or 14% during fiscal 2022, due to an increase in contractual services in the Nonfederal Administrative Fund.

During fiscal year 2023, the Fund recognized nonoperating expenses of \$1,781,908 for loan forgiveness and write-offs compared to \$1,819,297 in fiscal year 2022.

**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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Current assets</b>		
Pooled cash and investments	\$ 121,580,994	\$ 106,306,637
Administrative fees receivable	546,017	554,600
Interest receivable	571,684	588,567
Federal grant receivable	1,321,637	-
Loans receivable - current	14,573,860	11,999,066
Notes receivable - current	281,374	260,293
Total current assets	<u>138,875,566</u>	<u>119,709,163</u>
<b>Noncurrent assets</b>		
Right-of-use asset	193,592	244,062
Loans receivable, less current portion	216,780,850	227,561,951
Notes receivable, less current portion	5,886,270	6,288,131
Total noncurrent assets	<u>222,860,712</u>	<u>234,094,144</u>
<b>Total assets</b>	<u>\$ 361,736,278</u>	<u>\$ 353,803,307</u>
<b>Current liabilities</b>		
Vouchers payable	\$ 5,197	\$ 588,241
Accrued payroll	46,559	77,421
Short term lease liability	48,058	47,629
Due to State	1,316,440	-
Due to 21st Century	-	84,480
Total current liabilities	<u>1,416,254</u>	<u>797,771</u>
<b>Long term liabilities</b>		
Long term lease liability	<u>160,701</u>	<u>208,759</u>
Total long term liabilities	<u>160,701</u>	<u>208,759</u>
<b>Total liabilities</b>	1,576,955	1,006,530
<b>Net position-unrestricted</b>	<u>360,159,323</u>	<u>352,796,777</u>
<b>Total liabilities and net position</b>	<u>\$ 361,736,278</u>	<u>\$ 353,803,307</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, 2023 and 2022**

	2023	2022
Operating revenues		
Interest income on loans	\$ 3,572,016	\$ 2,510,557
Administrative fee revenue	2,615,073	2,616,981
Application fees	1,017	1,885
Other income	40,471	36,949
Total operating revenues	<u>6,228,577</u>	<u>5,166,372</u>
Operating expenses		
Reimbursable expenditures under operating grants:		
Personnel costs	1,603,751	1,459,496
Travel	3,038	2,994
Contractual services	259,722	217,018
Supplies and office expenses	22,281	29,816
Other expenses	79,471	2,467
Grants made	1,095,372	1,028,620
Total operating expenses	<u>3,063,635</u>	<u>2,740,411</u>
Operating income (loss)	<u>3,164,942</u>	<u>2,425,961</u>
Nonoperating revenues and expenses		
Amortization expense	(50,470)	(51,949)
Interest on capital lease	(7,487)	(9,161)
Interest income on deposits	74,105	-
Contributions:		
EPA	3,953,364	7,779,000
State	2,010,000	1,555,800
Loan forgiveness and write-offs	(1,781,908)	(1,819,297)
Total nonoperating revenues and expenses	<u>4,197,604</u>	<u>7,454,393</u>
Transfers in	<u>8,254</u>	<u>646,568</u>
Transfers out	<u>(8,254)</u>	<u>(646,568)</u>
Change in net position	7,362,546	9,880,354
Net position - beginning - unrestricted	<u>352,796,777</u>	<u>342,916,423</u>
Net position - end - unrestricted	<u>\$ 360,159,323</u>	<u>\$ 352,796,777</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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Loan and note collections	\$ 17,049,332	\$ 29,769,126
Interest received from borrowers	3,588,899	2,505,879
Administrative fee revenue	2,623,656	2,608,881
Application fees and other revenue	41,488	38,834
Loan and lease disbursements	(10,903,534)	(20,743,772)
General expenses paid	(3,102,640)	(2,724,232)
Net cash provided by (used in) operating activities	<u>9,297,201</u>	<u>11,454,716</u>
Cash flows from noncapital financing activities		
Grants received from EPA	2,631,727	7,779,000
State portion funded by recipient	2,010,000	1,555,800
Advances from State	1,316,440	-
Net cash provided by noncapital financing activities	<u>5,958,167</u>	<u>9,334,800</u>
Cash flows from capital and related financing activities		
Principal paid on capital debt	(47,629)	(46,595)
Interest paid on capital debt	(7,487)	(9,161)
Net cash used in capital and related financing activities	<u>(55,116)</u>	<u>(55,756)</u>
Cash flows from investing activities		
Interest on deposits	74,105	-
Net cash provided by (used in) investing activities	<u>74,105</u>	<u>-</u>
Net increase (decrease) in pooled cash and investments	15,274,357	20,733,760
Pooled cash and investments - beginning of year	<u>106,306,637</u>	<u>85,572,877</u>
Pooled cash and investments - end of year	<u>\$ 121,580,994</u>	<u>\$ 106,306,637</u>
Reconciliation of net operating income to cash provided by (used in) operating activities:		
Cash flows from operating activities:		
Operating income	\$ 3,164,942	\$ 2,425,961
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Administrative fees receivable	8,583	(8,100)
Interest receivable	16,883	(4,678)
Loans receivable	6,424,399	9,082,984
Notes receivable	380,780	165,444
Accrued payroll	(30,862)	8,611
Vouchers payable	(583,044)	(299,986)
Due to 21st century	(84,480)	84,480
Net cash provided by (used in) operating activities	<u>\$ 9,297,201</u>	<u>\$ 11,454,716</u>
Schedule of noncash investing activities		
Loan forgiveness, subsidies and write-offs	<u>\$ (1,781,908)</u>	<u>\$ (1,819,297)</u>

See accompanying notes to financial statements.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

---

**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, 2023 and 2022**

---

**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, 2023 and 2022**

---

**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, 2023 and 2022**

---

**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, 2023 and 2022**

**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 - 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:

	2023	2022
Municipal loans		
Sussex County*	\$ 54,515,494	\$ 56,071,096
City of Wilmington	48,780,425	47,399,211
City of Seaford	3,022,346	3,242,419
Kent County	23,136,324	24,233,058
City of Milford	427,188	483,501
New Castle County	24,495,519	25,408,235
Town of Selbyville	423,152	625,463
Town of Laurel	545,516	718,504
City of Dover	4,619,438	5,006,868
City of Lewes	8,668,173	9,338,192
Town of Delmar	508,126	576,473
Town of Georgetown	1,071,822	1,375,054
City of Harrington*	2,758,746	2,978,597
Town of Smyrna	6,935,078	7,510,356
City of Delaware City	597,623	631,476
City of Rehoboth Beach	42,623,462	42,814,290
City of Newark	10,548,570	9,361,169
Less: principal subsidization allowance	(5,950,880)	(4,168,972)
Total municipal loans	227,726,122	233,604,990

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

**Note C - Loans Receivable – Continued**

	<u>2023</u>	<u>2022</u>
ARRA loans		
Sussex County Council	3,254,551	3,608,596
Kent County	<u>374,037</u>	<u>419,822</u>
Total ARRA loans	<u>3,628,588</u>	<u>4,028,418</u>
Septic Rehabilitation Program	-	1,885,580
Agriculture nonpoint source loans	<u>-</u>	<u>42,029</u>
Total loans	<u>\$ 231,354,710</u>	<u>\$ 239,561,017</u>
Current portion	\$ 14,573,860	\$ 11,999,066
Long-term portion	<u>216,780,850</u>	<u>227,561,951</u>
Total loans	<u>\$ 231,354,710</u>	<u>\$ 239,561,017</u>

\*Subsidy allowed

Interest charged on these loans ranges from 0% to 6% for both fiscal year 2023 and 2022. 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 \$0 for fiscal year 2023 and \$289,360 for fiscal year 2022 for accounts in collection. Change in allowance for loan forgiveness and subsidization for 2023 and 2022 were \$1,781,908 and \$1,801,790, respectively. Total loans forgiven or written off during fiscal year 2023 and 2022 were \$0 and \$17,507, respectively.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

---

**Note C - Loans Receivable - Continued**

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, 2023 and 2022 was \$5,950,880 and \$4,168,972, 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 \$6,167,644 and \$6,548,424 as of June 30, 2023 and 2022, 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 2023 and 2022, the Fund disbursed \$0 and \$0 under note agreements, respectively. During fiscal years 2023 and 2022, the Fund collected \$380,779 and \$165,444, 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:

2024	\$ 281,374
2025	287,029
2026	292,799
2027	298,683
2028	304,687
2029-2033	1,617,798
2034-2038	1,588,903
2039-2040	1,496,371
	<u>\$ 6,167,644</u>

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

**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, 2023) were \$337,484,794, which includes the federal portion of \$285,248,510, or five-sixths, and the State matching portion of \$52,236,284, 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:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Awards made through June 30, 2023	\$ 276,051,510	\$ 52,236,284	\$ 328,287,794
Awards expended through June 30, 2023	\$ 283,515,677	\$ 52,236,284	\$ 335,751,961

During the year ended June 30, 2023, the Fund received additional grants funded by the Infrastructure Investment and Jobs Act (IIJA), which provides funds for the Clean Water State Revolving Fund (CWSRF) program. These grants are known as the Emerging Contaminants Grant and the General Supplemental Grant. The activities are to provide low interest financing to numerous subrecipients for costs associated with the planning, design, and construction of eligible water quality improvement and protection projects. The Emerging Contaminants Grant's primary purpose is to provide low interest financing to numerous borrowers for costs eligible under section 603(c) of the Clean Water Act and must be to address emerging contaminants requirements.

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

	<u>Emerging Contaminants</u>	<u>Supplemental Fund</u>
Awards made through June 30, 2023	\$ 459,000	\$ 8,738,000
Awards expended through June 30, 2023	\$ -	\$ -

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

---

**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 \$225,918 for fiscal year 2023 and \$211,533 for fiscal year 2022, 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)

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.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

---

**Note F - Pension Plan - Continued**

Contributions – Employer – determined by Board of Pension Trustees based on the actuarially determined rate. Employer contributions were 11.15% and 12.45% for fiscal year 2023 and 2022.

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](http://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:

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

---

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

Eligibility:

Early Retirement:

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

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

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

General Assembly:

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

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

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

Benefits:

During the fiscal year ended June 30, 2023, 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, 2023 and 2022**

---

**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, 2023, there were \$95,270,292 in undisbursed loan proceeds for projects under construction. There was also binding loan commitments of \$62,727,227.

**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.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

---

**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, 2023, 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 2023 and 2022, 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, 2023 and 2022**

---

**Note K - Nonfederal Administrative Fund - Continued**

During the fiscal year ended June 30, 2023, the Nonfederal Administrative Fund funded the following:

SEFO grants	\$ 491,642
Wastewater matching planning grants	208,258
DNREC other program matching planning grants	<u>395,472</u>
Total	<u>\$ 1,095,372</u>

**Note L - Lease-Lessee**

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. The lease liabilities were discounted to a net present value at July 1, 2020 using a 3.25% interest rate.

Key estimates and judgements 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.

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.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2023 and 2022**

**Note L - Lease-Lessee – Continued**

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

For the years ended June 30, 2023 and 2022, respectively, lease expense and lease interest expense reported on the statement of net activities, Nonfederal Administration Fund, Contractual services were:

	Year Ending 2023	Year Ending 2022
Lease expense	<u>2023</u>	<u>2022</u>
Amortization expense by class of underlying asset		
Office Space	\$ 48,398	\$ 48,398
Copy Machine	<u>2,071</u>	<u>3,551</u>
Total amortization expense	50,469	51,949
Interest on lease liabilities	<u>7,487</u>	<u>9,161</u>
<b>Total</b>	<u><u>\$ 57,956</u></u>	<u><u>\$ 61,110</u></u>

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

<b>Maturity Analysis</b>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
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	56,434	1,002	57,436
Year Ending 2028	<u>-</u>	<u>-</u>	<u>-</u>
Total Future Payments	<u><u>\$ 208,759</u></u>	<u><u>\$ 14,339</u></u>	<u><u>\$ 223,098</u></u>

**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 23, 2024, the date the financial statements were available to be issued.

## **Supplemental Information**

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Schedule of Fund Net Position by Sub-Fund**  
**June 30, 2023 and 2022**

	2023				2022			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
<b>Current assets</b>								
Pooled cash and investments	\$ 296,901	\$ 112,275,346	\$ 9,008,747	\$ 121,580,994	\$ 296	\$ 97,750,063	\$ 8,556,278	\$ 106,306,637
Administrative fees receivable	-	-	546,017	546,017	-	-	554,600	554,600
Interfund receivable	-	(562,163)	562,163	-	-	(562,163)	562,163	-
Interest receivable	-	571,684	-	571,684	-	588,567	-	588,567
Federal grant receivable	-	1,321,637	-	1,321,637	-	-	-	-
Loans receivable - current	-	14,573,860	-	14,573,860	-	11,999,066	-	11,999,066
Notes receivable - current	-	281,374	-	281,374	-	260,293	-	260,293
Total current assets	<u>296,901</u>	<u>128,461,738</u>	<u>10,116,927</u>	<u>138,875,566</u>	<u>296</u>	<u>110,035,826</u>	<u>9,673,041</u>	<u>119,709,163</u>
<b>Noncurrent assets</b>								
Right-of-use asset	-	-	193,592	193,592	-	-	244,062	244,062
Loans receivable, less current portion	-	216,780,850	-	216,780,850	-	227,561,951	-	227,561,951
Notes receivable, less current portion	-	5,886,270	-	5,886,270	-	6,288,131	-	6,288,131
Total noncurrent assets	<u>-</u>	<u>222,667,120</u>	<u>193,592</u>	<u>222,860,712</u>	<u>-</u>	<u>233,850,082</u>	<u>244,062</u>	<u>234,094,144</u>
Total assets	<u>\$ 296,901</u>	<u>\$ 351,128,858</u>	<u>\$ 10,310,519</u>	<u>\$ 361,736,278</u>	<u>\$ 296</u>	<u>\$ 343,885,908</u>	<u>\$ 9,917,103</u>	<u>\$ 353,803,307</u>
<b>Current liabilities</b>								
Vouchers payable	\$ -	\$ 5,197	\$ -	\$ 5,197	\$ -	\$ 588,241	\$ -	\$ 588,241
Accrued payroll	-	-	46,559	46,559	-	-	77,421	77,421
Short term lease liability	-	-	48,058	48,058	-	-	47,629	47,629
Due to State	-	1,316,440	-	1,316,440	-	-	-	-
Due to 21st Century	-	-	-	-	-	84,480	-	84,480
Total current liabilities	<u>-</u>	<u>1,321,637</u>	<u>94,617</u>	<u>1,416,254</u>	<u>-</u>	<u>672,721</u>	<u>125,050</u>	<u>797,771</u>
<b>Long term liabilities</b>								
Long term lease liability	-	-	160,701	160,701	-	-	208,759	208,759
Total long term liabilities	<u>-</u>	<u>-</u>	<u>160,701</u>	<u>160,701</u>	<u>-</u>	<u>-</u>	<u>208,759</u>	<u>208,759</u>
Total liabilities	-	1,321,637	255,318	1,576,955	-	672,721	333,809	1,006,530
Net position-unrestricted	<u>(1,633,549)</u>	<u>351,733,545</u>	<u>10,059,327</u>	<u>360,159,323</u>	<u>296</u>	<u>343,213,187</u>	<u>9,583,294</u>	<u>352,796,777</u>
Total liabilities and net position	<u>\$ (1,633,549)</u>	<u>\$ 353,055,182</u>	<u>\$ 10,314,645</u>	<u>\$ 361,736,278</u>	<u>\$ 296</u>	<u>\$ 343,885,908</u>	<u>\$ 9,917,103</u>	<u>\$ 353,803,307</u>

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Schedule of Activities by Sub-Fund**  
**Year Ended June 30, 2023 and 2022**

	2023				2022			
	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	\$ -	\$ 3,572,016	\$ -	\$ 3,572,016	\$ -	\$ 2,510,557	\$ -	\$ 2,510,557
Administrative fee revenue	(965,225)	850,556	2,729,742	2,615,073	-	-	2,616,981	2,616,981
Application fees	-	1,017	-	1,017	-	1,885	-	1,885
Other income	-	-	40,471	40,471	-	1,047	35,902	36,949
Total operating revenues	<u>(965,225)</u>	<u>4,423,589</u>	<u>2,770,213</u>	<u>6,228,577</u>	<u>-</u>	<u>2,513,489</u>	<u>2,652,883</u>	<u>5,166,372</u>
Operating expenses								
Reimbursable expenditures under operating grants:								
Personnel costs	667,664	-	936,087	1,603,751	630,031	-	829,465	1,459,496
Travel	-	-	3,038	3,038	-	-	2,994	2,994
Contractual services	296	485	258,941	259,722	2,991	1,412	212,615	217,018
Supplies and office expenses	660	-	21,621	22,281	14,039	-	15,777	29,816
Other expenses	-	75,948	3,523	79,471	-	492	1,975	2,467
Grants made	-	-	1,095,372	1,095,372	-	-	1,028,620	1,028,620
Total operating expenses	<u>668,620</u>	<u>76,433</u>	<u>2,318,582</u>	<u>3,063,635</u>	<u>647,061</u>	<u>1,904</u>	<u>2,091,446</u>	<u>2,740,411</u>
Operating income (loss)	<u>(1,633,845)</u>	<u>4,347,156</u>	<u>451,631</u>	<u>3,164,942</u>	<u>(647,061)</u>	<u>2,511,585</u>	<u>561,437</u>	<u>2,425,961</u>
Nonoperating revenues and expenses								
Amortization expense	-	-	(50,470)	(50,470)	-	-	(51,949)	(51,949)
Interest on capital lease	-	-	(7,487)	(7,487)	-	-	(9,161)	(9,161)
Interest income on deposits	-	-	74,105	74,105	-	-	-	-
Contributions:								
EPA	-	3,953,364	-	3,953,364	-	7,779,000	-	7,779,000
State	-	2,010,000	-	2,010,000	-	1,555,800	-	1,555,800
Loan forgiveness and write-offs	-	(1,781,908)	-	(1,781,908)	-	(1,819,297)	-	(1,819,297)
Total nonoperating revenues and expenses	<u>-</u>	<u>4,181,456</u>	<u>16,148</u>	<u>4,197,604</u>	<u>-</u>	<u>7,515,503</u>	<u>(61,110)</u>	<u>7,454,393</u>
Transfers in	-	-	8,254	8,254	646,568	-	-	646,568
Transfers out	-	(8,254)	-	(8,254)	-	(646,568)	-	(646,568)
Change in net position	(1,633,845)	8,520,358	476,033	7,362,546	(493)	9,380,520	500,327	9,880,354
Net position - beginning - unrestricted	296	343,213,187	9,583,294	352,796,777	789	333,832,667	9,082,967	342,916,423
Net position - end - unrestricted	<u>\$ (1,633,549)</u>	<u>\$ 351,733,545</u>	<u>\$ 10,059,327</u>	<u>\$ 360,159,323</u>	<u>\$ 296</u>	<u>\$ 343,213,187</u>	<u>\$ 9,583,294</u>	<u>\$ 352,796,777</u>



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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, 2023 and 2022, 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 23, 2024.

### **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*.

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

[www.zallc.org](http://www.zallc.org)



# *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 23, 2024

*Zelenkofske Axlerod LLC*

ZELENKOFKSKE AXELROD LLC