

**State of Delaware Drinking Water Revolving Loan Fund**  
**Financial Statements**  
**June 30, 2013 and 2012**  
Report Issued: May 2, 2014

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# Zelenkofske Axelrod LLC

## Independent Auditors' Report

To the Management of the State of Delaware Drinking Water Revolving Loan Fund  
Dover, DE

We have audited the accompanying statements of net position of the State of Delaware Drinking Water Revolving Loan Fund (Fund) as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2013, and the related notes to those financial statements. Also, we were engaged to audit the statements of revenues, expenses and changes in net position, and cash flows for the year ended June 30, 2012, and the related notes to those financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinion on the statements of net position as of June 30, 2013 and 2012, and the statements of revenues, expenses, and changes of net position, and cash flows for the year ended June 30, 2013.

### **Basis for Disclaimer of Opinion on the 2012 Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows**

We were unable to confirm beginning cash balances, as separate account balances are not maintained by the State of Delaware, and we were unable to satisfy ourselves regarding beginning cash balances by means of other auditing procedures. The beginning cash balances directly relate to the statements of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2012, and the related notes to the financial statements. The Fund's records do not permit the application of other auditing procedures to 2012 beginning cash balances, and revenues, expenses, and changes in net

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# Zelenkofske Axelrod LLC

position and cash flows. Due to the inability to confirm cash, we were unable to obtain significant appropriate audit evidence about completeness, valuation and existence by means of other auditing procedures.

## **Disclaimer of Opinion on the 2012 Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows**

Because of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2012, and accordingly, we do not express an opinion on the statements of revenues, expenses and changes in net position and cash flows for the year ended June 30, 2012.

## **Unmodified Opinion on the 2012 Statement of Net Position and 2013 Financial Statements**

In our opinion, the statements of net position of the Fund as of June 30, 2013 and 2012, and the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2013, present fairly in all material respects, the financial position of the Fund as of June 30, 2013 and 2012 and the changes in financial position and cash flows thereof for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the State of Delaware Drinking Water Revolving Loan Fund and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2013 and 2012, and the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our report dated April 8, 2013, we expressed a disclaimer of opinion that the June 30, 2012, financial statements did not present fairly the statements of net position, and the related statements of revenues, expenses, and changes in net position, and cash flows in accordance with accounting principles generally accepted in the United States of America because we were unable to confirm beginning and ending cash balances, as separate account balances were not maintained by the State of Delaware, and we were unable to satisfy ourselves regarding beginning and ending cash balances by means of other auditing procedures. For the year ended June 30, 2012, the Fund provided audit evidence supporting the ending cash balances. Accordingly, our present opinion on the 2012 statement of net position as presented herein is different from that expressed in our previous report.

## **Adoption of Governmental Accounting Standards Board Principles**

As discussed in Note 1 to the financial statements in 2013, the Fund adopted the provisions of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to the 2013 financial statements and the

# Zelenkofske Axelrod LLC

2012 Statement of Net Position 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures on the required supplementary information related to the 2013 financial statements and the 2012 Statement of Net Position do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to the 2012 statements of revenues, expenses, and changes in net position and cash flows in accordance with auditing standards generally accepted in the United States of America as noted in the Basis for Disclaimer of Opinion paragraph.

## *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Delaware Drinking Water Revolving Loan Fund financial statements as a whole. The Schedules of Fund Net Position by Fund, Schedules of Revenues, Expenses and Changes in Fund Net Position by Fund, Schedules of Fund Net Position by Classification, Schedules of Revenues, Expenses, Changes in Fund Net Position by Classification are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and, except for the information related to the 2012 statements of revenues, expenses, and changes in net position and cash flows, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Fund Net Position by Fund, Schedule of Activities by Fund for the year ended June 30, 2013, and Schedules of Fund Net Position by Classification on pages 28-29, 30, and 32, respectively, are fairly stated in all material respects in relation to the financial statements as a whole. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the Schedule of Activities by fund for the year ended June 30, 2012, or the Schedules of Activities by Classification on pages 31 and 33, respectively.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014, on our consideration of the State of Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
April 23, 2014

**State of Delaware Drinking Water Revolving Loan Fund  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

As management of the State of Delaware Drinking Water Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2013 and June 30, 2012. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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

**Overview of the Financial Statements**

The Fund was established through subsection 15 of 29 Del. C., c. 79, and provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities, as well as loans for land acquisition for source water protection purposes. The Fund is funded through federal capitalization grants as established under Federal §1452 of the Safe Drinking Water Act (the Act). The Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received.

The Fund is administered by the State Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance, and managing the Fund to meet the objectives of the Act.

The Fund consists of five sub-funds, each of which is considered a separate accounting entity. The primary activity of the Loan Fund, the main sub-fund is the issuance of loans. The remaining four set-aside sub-funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

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

The Fund is accounted for as an enterprise fund. The accrual basis of accounting is utilized in enterprise funds. Revenue is recognized when earned, and expenses are recognized when the liability is incurred.

**Financial Highlights (Numbers in Thousands)**

The Fund realized a change in net position of \$18,060.9 in fiscal year 2013, which represents an increase of 27.3% from the change in net position of \$14,184.4 in fiscal year 2012, due to increased loan activity and operating income from the Fund. The Fund realized a change in net position of \$14,184.4 in fiscal year 2012, which represents an increase of 6.4% from the change in net position of \$13,329.3 in fiscal year 2011. The increase in net position in 2012 was due to increased loan disbursements activity, offset by an increase in grants received from the Environmental Protection Agency (EPA).

Grant revenue recognized from the federal and state governments totaled \$20,004.5 in fiscal year 2013, a 32.4% increase from fiscal year 2012, due to increased State match revenues, and a decrease in American Recovery Act (ARRA) activity for special projects. Grant revenue recognized from the federal and State

governments totaled \$15,111.3 in fiscal year 2012, a 12.8% decrease from fiscal year 2011, largely due to decreased State match revenues.

Loans made totaled \$19,098.7 during this fiscal year, which represents an increase of \$3,414.1 from the previous year. This increase of 21.8% was caused by increased draws on existing loans from municipalities and others through the State. Loans made during 2012 totaled \$15,684.6, which represents an increase of \$1,453.4 from the previous year. This increase of 10.2% was caused by increased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$4,454.0 during this fiscal year. This represents an overall increase of \$1,271.3, 39.9%, from the prior year due to increased borrowings and principal payments by loan recipients. Loan collections (principal) totaled \$3,182.6 during 2012. This represents an overall increase of \$1,931.8, 154.4% from the prior year due to timing of receipt of a late payment on a loan.

### **Statement of Net Position**

The total net position of the Fund for years ended June 30, 2013 and 2012 increased by \$18,060.9 and \$14,184.4, respectively. The following condensed statement of net position (Table 1) shows a summary of changes in dollars.

During fiscal year 2013, cash, short-term, and long-term investments decreased in aggregate by approximately \$1,975.8, 7.8%, to \$23,271.7 based on an increase in loan repayments, grants revenues, as well as administration fees received but decreased due to a transfer of the administration of an Environmental Protection Agency (EPA) grant to the Department of Natural Resources and Environmental Control (DNREC) in December 2012. Loans receivable increased, by \$13,847.3, 15.2%, to \$104,933.1, mostly as a result of increased draws on existing loans from municipalities. Federal grants receivable decreased by approximately \$84.9, 49.6%, mostly due to the timing of reimbursements requests from the EPA during the fiscal year ended June 30, 2013.

During fiscal year 2012, cash, short-term, and long-term investments increased in aggregate by approximately \$4,407.4, 21.1%, to \$25,247.6 based on an increase in loan repayments, grants received from the EPA, as well as loan origination and administration fees received. Loans receivable increased, by \$10,588.2, 13.2%, to \$91,085.8, mostly as a result of increased draws on existing loans from municipalities. Federal grants receivable decreased by approximately \$1,638.8, 90.5%, mostly due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2012.

Vouchers payable decreased by \$32.6, or 28.5% from the prior year as a result of timing of disbursements at year end for 2012. Vouchers payable in 2012 decreased by \$1,913.8 over 2011 for the same reason.

Deferred revenue from the State match decreased by \$6,247.3, 100.0%, as the Fund received committed State grant funding, which was disbursed as loan proceeds to municipalities and the aforementioned transfer to DNREC for fiscal year end June 30, 2013. Deferred revenue from the State match decreased by \$2,485.0, 28.5% for the fiscal year end June 30, 2012, as the State drew down its match to fund loan disbursements to sub-recipients during the fiscal year and the match for the 2008 grant year being made by nonfederal administrative funds rather than 21<sup>st</sup> Century funds.

Table 1  
Statement of Net Position  
(Thousands of Dollars)

	2013	2012	2011
<b>Current Assets</b>			
Cash and cash equivalents	\$ 4,840.5	\$ 9,644.6	\$ 20,840.2
Investments - short-term	15,755.0	13,709.4	-
Loans, current portion	4,226.8	4,379.4	4,225.2
Loan interest	704.9	710.5	1,006.6
Federal grants receivable	86.3	171.2	1,810.0
State grants receivable	-	-	3,275.0
<b>Total Current Assets</b>	<b>25,613.5</b>	<b>28,615.1</b>	<b>31,157.0</b>
<b>Noncurrent Assets</b>			
Investments - long-term	2,676.2	1,893.6	-
Loans, net of current portion	100,706.3	86,706.4	76,272.4
<b>Total Noncurrent Assets</b>	<b>103,382.5</b>	<b>88,600.0</b>	<b>76,272.4</b>
<b>Total Assets</b>	<b>\$ 128,996.0</b>	<b>\$ 117,215.1</b>	<b>\$ 107,429.4</b>
<b>Current Liabilities</b>			
Vouchers payable	\$ 81.9	\$ 114.5	\$ 2,028.3
<b>Total Current Liabilities</b>	<b>81.9</b>	<b>114.5</b>	<b>2,028.3</b>
<b>Noncurrent Liabilities</b>			
Unearned revenue - state match	-	6,247.3	8,732.3
<b>Total Liabilities</b>	<b>81.9</b>	<b>6,361.8</b>	<b>10,760.6</b>
<b>Net Position - Restricted</b>	<b>128,914.1</b>	<b>110,853.3</b>	<b>96,668.8</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 128,996.0</b>	<b>\$ 117,215.1</b>	<b>\$ 107,429.4</b>

**Statement of Revenues, Expenses, and Changes in Net Position (Numbers in Thousands)**

The following schedule summarizes the statement of revenue, expenses, and changes in net position of the Fund for the fiscal years ended June 30, 2013, 2012, and 2011 (Table 2).

Federal grant revenue increased by \$1,786.3, 12.4%, and the State match revenue increased by \$3,106.8, 431.0%, during fiscal year 2013 as a higher volume of loans were from funds requiring a State match compared to the prior years where funding from ARRA was utilized. Federal grant revenue decreased by \$1,233.7, 7.9%, and the State match revenue decreased by \$975.1, 57.5%, during fiscal year 2012 due to the 2008 grant year State match being made from nonfederal administrative funds rather than 21<sup>st</sup> Century funds.

Interest income from cash deposits decreased by \$16.4, 12.2%, during fiscal year 2013 and \$63.5, 32.2%, during fiscal year 2012, due mainly to decreases in interest rates utilized by the Treasurer of the State of Delaware.

Operating expenses increased by approximately \$1,689.1, 68.7%, due mainly to a transfer of funds to DNREC from the Fund's nonfederal administrative fund and increased overall grant activity resulting in increased contractual services, personnel costs (salaries and related benefits) and equipment, offset by a decrease in subgrants. In 2012, operating expenses increased approximately \$147.9, 6.4%, due mainly to increased personnel costs (salaries and related benefits), offset by a decrease in contractual services.

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

	2013	2012	2011
<b>Operating Revenue</b>			
Interest income - loans and administrative fees	\$ 2,874.8	\$ 2,509.0	\$ 1,313.6
Loan origination fees	26.0	89.3	50.0
Grant revenue	16,176.7	14,390.4	15,624.1
ARRA loan forgiveness	(15.6)	(1,183.4)	(3,240.0)
Principal forgiveness	(797.4)	-	-
Writeoff of receivables	-	(16.0)	-
State match	3,827.7	720.9	1,696.0
<b>Total Operating Revenue</b>	<b>22,092.2</b>	<b>16,510.2</b>	<b>15,443.7</b>
<b>Operating Expenses</b>			
Grant to other funds	1,195.4	-	-
Salaries and related benefits	985.2	928.0	704.3
Contract services	691.0	534.2	779.8
Indirect costs	101.7	45.5	51.8
Subgrants	802.7	828.0	722.7
Supplies	91.0	55.0	40.5
Equipment	135.0	3.8	-
Travel	5.9	15.5	10.6
Training	141.0	49.8	2.2
<b>Total Operating Expenses</b>	<b>4,148.9</b>	<b>2,459.8</b>	<b>2,311.9</b>
<b>Operating Income</b>	<b>17,943.3</b>	<b>14,050.4</b>	<b>13,131.8</b>
<b>Nonoperating Revenue</b>			
Interest income - cash deposits	117.6	134.0	197.5
<b>Total Nonoperating Revenue</b>	<b>117.6</b>	<b>134.0</b>	<b>197.5</b>
<b>Change in Net Position</b>	<b>18,060.9</b>	<b>14,184.4</b>	<b>13,329.3</b>
<b>Net Position - Beginning of Year</b>	<b>110,853.2</b>	<b>96,668.8</b>	<b>83,339.5</b>
<b>Net Position - End of Year</b>	<b>\$ 128,914.1</b>	<b>\$ 110,853.2</b>	<b>\$ 96,668.8</b>

**Request for Information**

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

Deborah Fisher, Budget Director  
Support Services  
State of Delaware Division of Public Health  
417 Federal Street  
Dover, DE 19901-3641

**State of Delaware Drinking Water Revolving Loan Fund**  
**Statements of Net Position**  
**June 30, 2013 and 2012**

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,840,521	\$ 9,644,574
Investments - short-term	15,754,963	13,709,434
Loans receivable	4,226,804	4,379,384
Interest receivable	704,890	710,484
Federal grants receivable	86,319	171,214
Total Current Assets	25,613,497	28,615,090
Noncurrent Assets:		
Investments - long-term	2,676,249	1,893,569
Loans receivable	100,706,265	86,706,383
Total Noncurrent Assets	103,382,514	88,599,952
Total Assets	\$ 128,996,011	\$ 117,215,042
Liabilities		
Current Liabilities:		
Vouchers payable	\$ 81,879	\$ 114,514
Total Current Liabilities	81,879	114,514
Noncurrent Liabilities:		
Unearned revenue - state match	-	6,247,285
Total Liabilities	81,879	6,361,799
Net Position		
Net position - restricted	128,914,132	110,853,243
Total Liabilities and Net Position	\$ 128,996,011	\$ 117,215,042

The accompanying notes are an integral part of the financial statements.

**State of Delaware Drinking Water Revolving Loan Fund**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**June 30, 2013 and 2012**

	2013	2012
Operating Revenues		
Interest income - loans	\$ 1,437,416	\$ 1,254,486
Interest income - administrative fees	1,437,416	1,254,486
Loan origination fees	26,000	89,317
Grant revenue	16,176,725	14,390,389
ARRA loan forgiveness	(15,614)	(1,183,378)
Principal forgiveness	(797,431)	-
Write off of receivables	-	(16,000)
State match	3,827,737	720,891
	22,092,249	16,510,191
Total Operating Revenues		
Operating Expenses		
Grant to WPCRLF	1,195,487	-
Salaries and related benefits	985,201	927,945
Contract services	690,963	534,183
Indirect costs	101,671	45,544
Subgrants	802,653	827,954
Supplies	91,039	55,032
Equipment	135,010	3,844
Training	141,025	49,836
Travel	5,881	15,464
	4,148,930	2,459,802
Total Operating Expenses		
Operating Income	17,943,319	14,050,389
Nonoperating Revenues		
Interest income - cash accounts	117,570	134,031
	117,570	134,031
Total Nonoperating Revenues		
Increase in Net Position	18,060,889	14,184,420
Net Position - Beginning of Year	110,853,243	96,668,823
Net Position - End of Year	\$ 128,914,132	\$ 110,853,243

The accompanying notes are an integral part of the financial statements.

**State of Delaware Drinking Water Revolving Loan Fund**  
**Statements of Cash Flows**  
**June 30, 2013 and 2012**

	2013	2012
Cash flow from operating activities		
Loan repayments	\$ 4,453,984	\$ 3,182,645
Interest income - loans	1,440,213	1,550,610
Interest income - administrative fees	1,440,213	1,254,486
Loan origination fees	26,000	89,317
Grants received from EPA	16,246,006	14,845,800
Grants received from the State of Delaware	1,795,000	1,494,909
Loan disbursements	(19,098,717)	(15,684,573)
Transfer of grant to WPCRLF	(5,410,035)	-
Salaries and related benefits paid	(985,201)	(927,945)
General expenses paid	(2,000,877)	(1,531,857)
	(2,093,414)	4,273,392
Net cash provided (used) by operating activities		
Cash flow from investing activity		
Proceeds from sales and purchases of investments - net	(2,828,209)	(15,603,003)
Interest received from cash deposits	117,570	134,031
	(2,710,639)	(15,468,972)
Net cash used in investing activity		
Decrease in cash and cash equivalents	(4,804,053)	(11,195,580)
Cash and cash equivalents - beginning of year	9,644,574	20,840,154
Cash and cash equivalents - end of year	\$ 4,840,521	\$ 9,644,574
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income	\$ 17,943,319	\$ 14,050,389
Adjustments to reconcile net operating income to net cash used in operating activities:		
Changes in assets and liabilities:		
Increase in loans receivable	(13,847,302)	(10,588,156)
Decrease in federal grants receivable	84,895	1,638,790
Decrease in unearned revenue - state match	(6,247,285)	(2,484,983)
Decrease in state grants receivable	-	3,275,000
Decrease in interest and dividends receivable	5,594	296,124
Decrease in vouchers payable	(32,635)	(1,913,772)
	(2,093,414)	4,273,392
Net cash provided (used) by operating activities	\$ (2,093,414)	\$ 4,273,392

The accompanying notes are an integral part of the financial statements.

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements**  
**Years Ended June 30, 2013 and 2012**

**Note 1 - Summary of Significant Accounting Policies**

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

**A. General Background**

The Fund was established through 29 Del. C., c. 79, which provides financial assistance to eligible public water systems in Delaware for the planning, design, and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. Standard loans made by the Fund must be repaid within 20 to 30 years. All repayments, including interest and principal, must remain in the Fund.

The Fund is administered by the State; Delaware Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance, and managing the coordination of the Fund to meet the objectives of the Safe Drinking Water Act (the Act).

The Fund is funded through federal capitalization grants as established under Federal §1452 of the Act. The Act requires the State to provide matching funds equal to 20% of federal funds received. The grants were issued as follows:

Grant <u>Year</u>	Total Available <u>Funding</u>	Federal <u>Portion</u>	State <u>Portion</u>
1997	\$ 15,070,560	\$ 12,558,800	\$ 2,511,760
1999	17,502,120	14,585,100	2,917,020
2001	9,308,400	7,757,000	1,551,400
2002	9,346,920	7,789,100	1,557,820
2003	9,663,000	8,052,500	1,610,500
2004	9,604,920	8,004,100	1,600,820
2005	9,963,720	8,303,100	1,660,620
2006	9,942,600	8,285,500	1,657,100
2007	9,875,160	8,229,300	1,645,860
2008 *	8,444,029	7,036,691	1,407,338
2009 *	2,721,588	2,267,990	453,598
2010 *	2,206,281	1,838,567	367,714
2011	11,301,600	9,418,000	1,883,600
2012	10,770,000	8,975,000	1,795,000
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$155,220,898</u>	<u>\$132,600,748</u>	<u>\$22,620,150</u>

\* Amounts were adjusted to reflect deobligation of federal funding, and corresponding state match, see Note 6.

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**A. General Background (Continued)**

The federal grant years are one year behind the Fund's fiscal year. Therefore, federal year 2012 corresponds to the Fund's 2013 fiscal year.

For the 2008 grant's State match, the State used nonfederal administrative funds. The State match for 2009, 2010, 2011, and 2012 was paid from the 21<sup>st</sup> Century Fund.

The Fund received a grant of \$19,500,000 from the ARRA near the end of fiscal year 2009. The funds are available to be drawn for specific purposes. At June 30, 2012, 100% of ARRA funding was used for specific purposes. The ARRA funds do not have a State matching requirement.

The Fund is accounted for as an enterprise fund. The Fund is made up of several sub-funds whose funds are restricted for a specific purpose. The sub-funds are described below:

*Loan Fund*

The primary purpose of the Loan Fund is to serve as a permanent loan fund to make low-interest loans to public water systems.

*Set-Aside Sub-Funds*

The Set-Aside Sub-Funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

There are four such funds:

1. The 2% Technical Assistance Sub-Fund is used to account for the funds allotted to the State (up to 2% of the total) to provide assistance to public water systems serving 10,000 people or fewer.
2. The 4% Administration Sub-Fund is used to account for the funds allotted to the State (up to 4% of the total) for the reasonable costs of administering the programs under §1452 and providing technical assistance. These costs may include such activities as issuing debt; program start-up costs; audit costs; financial, management and legal consulting fees; development of an intended use plan and priority ranking system; development of affordability criteria; and cost of support services provided by other State agencies.
3. The 10% Program Management Sub-Fund is used to account for the funds allotted to the State (up to 10% of the total) to:
  - a) Administer the State Public Water Supply System (PWSS) program;
  - b) Administer or provide technical assistance through source water protection programs;

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**A. General Background (Continued)**

- c) Develop and implement a capacity development strategy; and
- d) Develop and implement an operator certification program.

The State must provide a dollar for dollar match (100% for up to 10% of the capitalization grant) for capitalization grant funds used for these purposes. This match is separate, and in addition to, the 20% match for the capitalization grant.

- 4. The 15% Local Assistance Sub-Funds are used to fund several other categories of activities to assist development and implementation of local drinking water protection initiatives with the stipulation that not more than 20% of the capitalization grant amount can be used for any one activity.

**B. Type of Entity and Division of Funds**

The Fund is part of the reporting entity of the State. The Fund's activities are accounted for as a distinct operating unit within the DPH. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds and account groups of the State that is attributable to the transactions of the Fund.

**C. Measurement Focus and Basis of Accounting**

The Fund's activities are financed and operated as an enterprise fund. The accompanying financial statements of the Fund have been prepared on a cost of services or capital maintenance approach under the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activities are included on its statement of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

The Fund utilizes the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standard Board (GASB). Under this method, revenues are recorded when earned, and expenses are recorded when incurred, regardless of the timing of the related cash flows. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Fund's policy to first apply the expense towards restricted resources and then toward unrestricted resources.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Fund. Operating revenues consist primarily of interest on loans receivable, and federal and state grants. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus and Basis of Accounting (Continued)**

investing types of activities and result from non-exchange transactions, such as investment income/loss.

**D. Recognition of Revenues**

By the terms of agreements between the State and the EPA, which commenced in fiscal year 1999, federal assistance provided to the Fund is earned when qualified loans and expenditures are made to eligible public water systems. Matching funds provided by the State are considered earned by the same criteria. However, in fiscal year 2002, the State's matching requirement for the Set-Aside Sub-Funds was met using designated expenditures made for other programs; therefore, no State monies were required to be provided to the Set-Aside Sub-Funds. The State's matching requirement for the Loan Fund was made using State General Fund monies.

Amounts earned in excess of grant monies received from the EPA and the State are recorded as grants receivable, whereas an excess of grant monies received over the amounts earned is recorded as deferred grant revenue. A right of set-off does not exist between the State and the EPA.

**E. Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less (see Note 2).

**F. Investments**

Investments are stated at fair value based on quoted market values.

**G. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**H. Reclassifications**

Certain amounts in 2012 have been reclassified in conformity with the 2013 presentation.

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**I. Adoption of GASB Statements**

The Fund adopted the provisions of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The adoption of No. 63 resulted in the renaming of the residual measure of all other elements presented in a statement of financial position as “net position”, rather than “net assets”. The adoption of the other statements had no effect on the previously reported amounts.

**J. Pending Changes in Accounting Principles**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Fund is required to adopt statement No. 65 for its fiscal year 2014 financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*. The Fund is required to adopt statement No. 66 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Fund is required to adopt statement No. 67 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The Fund is required to adopt statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Fund is required to adopt statement No. 69 for its fiscal year 2015 financial statements,

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Fund is required to adopt statement No. 70 for its fiscal year 2014 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition Contributions Made Subsequent to the Measurement Date*. The Fund is required to adopt statement No. 71 simultaneous with the provisions of statement No. 68 for its fiscal year 2015 financial statements.

The Fund has not completed the various analyses required to estimate the financial statement impact of these new pronouncements.

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 2 - Deposits and Investments**

*Deposits and Investments - State Treasurer's Pool*

Cash and cash equivalents and investments, as reported on the statements of net position, represents the Fund's allocated share of cash, cash equivalents, and investments under the control of the Treasurer of the State of Delaware (the Treasurer). All cash is deposited with the Treasurer by State agencies and maintained by the Treasurer in various pooled funds. The Treasurer invests the deposited cash, including cash float in short-term securities and other investments. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average monthly spending authority. Pooled investments represent those investments in units of a pool rather than specific securities. Since the Fund's deposits and investments are part of the State of Delaware's pooled deposits and investments maintained by the Treasurer, the required disclosures related to risks are included in the 2013 Delaware Comprehensive Annual Financial Report.

*The Cash Management Policy Board*

The State's policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to the investment of all money belonging to the State except money in any State pension fund and money held under the State deferred compensation program.

*Investment Guidelines and Management*

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

*Collateralization Requirements*

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

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 2 - Deposits and Investments (Continued)**

*Deposits and Investments - State Treasurer's Pool (Continued)*

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

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

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the legal balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

The Policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

The following table illustrates the cash and cash equivalents, and investments of the fund held by the Treasurer at June 30, 2013 and 2012:

	<u>June 30, 2013</u>		<u>June 30, 2012</u>	
Cash and cash equivalents	\$ 4,840,521	20.8%	\$ 9,644,574	38.2%
Investments – short-term	15,754,963	67.7%	13,709,434	54.3%
Investments – long-term	<u>2,676,249</u>	<u>11.5%</u>	<u>1,893,569</u>	<u>7.5%</u>
Total held by Treasurer	<u>\$ 23,271,733</u>	<u>100.0%</u>	<u>\$ 25,247,577</u>	<u>100.0%</u>

**Note 3 - Due to/Due from**

As of June 30, 2013, \$672,175 was owed to the Capital Reserve Fund by the Nonfederal Administrative Fund to satisfy the required match amount on grant expenditures.

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

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

As of June 30, 2013, the Fund had federal grants awarded in the amount of \$132,600,748, from which it had made disbursements of \$130,852,049. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2013 fiscal year, see Note 6. The breakdown for all grants is as follows:

**Loan Fund**

<u>Grant Year</u>	Committed Portion of Available <u>Funding</u>	Disbursed <u>to Date</u>	Remaining <u>Balance</u>
1997	\$ 9,288,036	\$ 9,288,036	\$ -
1999	11,642,600	11,642,600	-
2001	5,852,330	5,852,330	-
2002	5,653,979	5,653,979	-
2003	6,190,765	6,190,765	-
2004	6,164,343	6,164,343	-
2005	6,281,257	6,281,257	-
2006	6,229,432	6,229,432	-
2007	5,957,099	5,957,099	-
2008	6,287,633	6,287,633	-
2009	-	-	-
2010	-	-	-
2011	6,877,518	6,877,518	-
2012	6,517,469	6,517,469	-
ARRA	<u>18,778,138</u>	<u>18,778,138</u>	<u>-</u>
Total	<u>\$101,720,599</u>	<u>\$101,720,599</u>	<u>\$ -</u>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 4 - Available Funding, Disbursements, and Remaining Balance by Funding Year (Cont.)**

**Set-Aside Sub-Funds**

*2% Technical Assistance*

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 251,176	\$ 251,176	\$ -
1999	291,702	291,702	-
2001	155,140	155,140	-
2002	155,782	155,782	-
2003	75,133	75,133	-
2004	86,937	86,937	-
2005	166,062	166,062	-
2006	149,588	149,588	-
2007	164,586	164,586	-
2008	-	-	-
2009	147,111	147,111	-
2010	43,247	43,247	-
2011	160,000	143,593	16,407
2012	179,500	30,082	149,418
<b>Total</b>	<b>\$ 2,025,964</b>	<b>\$ 1,860,139</b>	<b>\$ 165,825</b>

*4% Administration*

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 502,352	\$ 502,352	\$ -
1999	583,404	583,404	-
2001	310,280	310,280	-
2002	311,564	311,564	-
2003	305,960	305,960	-
2004	215,566	215,566	-
2005	332,124	332,124	-
2006	329,284	329,284	-
2007	329,172	329,172	-
2008	-	-	-
2009	315,264	315,264	-
2010	334,980	334,980	-
2011	368,609	358,944	9,665
2012	344,822	219,940	124,882
ARRA	721,862	721,862	-
<b>Total</b>	<b>\$ 5,305,243</b>	<b>\$ 5,170,696</b>	<b>\$ 134,547</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 4 - Available Funding, Disbursements, and Remaining Balance by Funding Year  
(Continued)**

*10% Program Management*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 633,416	\$ 633,416	\$ -
1999	1,458,510	1,458,510	-
2001	775,700	775,700	-
2002	778,910	778,910	-
2003	805,250	805,250	-
2004	736,904	736,904	-
2005	830,310	830,310	-
2006	811,893	811,893	-
2007	822,930	822,930	-
2008	449,751	449,751	-
2009	739,182	739,182	-
2010	842,490	842,490	-
2011	864,313	747,910	116,403
2012	<u>826,353</u>	<u>394,240</u>	<u>432,113</u>
Total	<u>\$11,375,912</u>	<u>\$10,827,396</u>	<u>\$548,516</u>

*15% Local Assistance*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 1,883,820	\$1,883,820	\$ -
1999	608,884	608,884	-
2001	663,550	663,550	-
2002	888,865	888,865	-
2003	675,392	675,392	-
2004	800,350	800,350	-
2005	693,347	693,347	-
2006	765,303	765,303	-
2007	955,513	955,513	-
2008	299,306	299,306	-
2009	1,066,432	1,066,432	-
2010	617,852	617,852	-
2011	1,147,560	1,063,700	83,860
2012	<u>1,106,856</u>	<u>290,905</u>	<u>815,951</u>
Total	<u>\$12,173,030</u>	<u>\$11,273,219</u>	<u>\$ 899,811</u>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 4 - Available Funding, Disbursements, and Remaining Balance by Funding Year (Continued)**

*Total Program Balance*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 12,558,800	\$ 12,558,800	\$ -
1999	14,585,100	14,585,100	-
2001	7,757,000	7,757,000	-
2002	7,789,100	7,789,100	-
2003	8,052,500	8,052,500	-
2004	8,004,100	8,004,100	-
2005	8,303,100	8,303,100	-
2006	8,285,500	8,285,500	-
2007	8,229,300	8,229,300	-
2008	7,036,690	7,036,690	-
2009	2,267,989	2,267,989	-
2010	1,838,569	1,838,569	-
2011	9,418,000	9,191,665	226,335
2012	8,975,000	7,452,636	1,522,364
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$132,600,748</u>	<u>\$130,852,049</u>	<u>\$1,748,699</u>

**Note 5 - Federal Grants Receivable**

Grants receivable of \$86,319 and \$171,214, as of June 30, 2013 and 2012, respectively, represent amounts due from the federal government for amounts expended or accrued.

**Note 6 - Deobligation of Federal and State Match Funds Between the Fund and Water Pollution Control Revolving Loan Fund (WPCRLF)**

On September 4, 2012, the Environmental Protection Agency (EPA) deobligated \$27,050,177 of the Fund's federal capitalization grant and awarded it to the WPCRLF. As part of the deobligation, \$5,410,035, which represented the required 20% state match, was appropriated to WPCRLF. \$4,214,548 of the \$5,410,035 was included in the Unearned revenue – state match of the Fund on the Statement of Net Position on June 30, 2012. The remaining \$1,195,487 was transferred from Nonfederal Administrative funds. The \$5,410,035 is included in the WPCRLF Statement of Net Position as Unearned revenue – on June 30, 2013.

**Note 7 - Transfer of Funds Between the Fund and WPCRLF**

In accordance with WPCRLF's Intended Use Plan (Plan), the \$32,460,212, described in the previous note, will be returned to the Fund when they are needed for Drinking Water commitments. The transfer will occur at management's discretion to facilitate cash flow for loan commitments incurred by the fund. When funds are transferred between WPCRLF and the Fund, the funds will be accounted for as transfers out and in, respectively.

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 8 - Loans Receivable**

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

	<u>Binding Commitments</u>	<u>Loans Receivable</u>	
		<u>2013</u>	<u>2012</u>
<b>Municipal</b>			
Town of Felton	\$ 370,000	\$ 101,637	\$ 144,379
Town of Frankford	1,095,000	677,844	740,478
Town of Bethany Beach	2,600,000	143,214	-
Town of Blades	890,300	366,302	355,629
Town of Milton	643,370	414,053	448,759
City of Wilmington	74,055,000	61,438,356	49,717,192
Town of Greenwood	1,692,730	1,519,624	1,418,839
Town of Dagsboro	1,400,000	1,045,643	1,095,923
Town of Millsboro	5,139,700	4,484,092	4,625,627
Town of Laurel	5,271,875	3,305,563	3,786,349
Town of Smyrna	8,435,275	6,064,851	6,286,577
City of Lewes	2,016,000	943,158	998,834
Town of Clayton	850,000	696,656	732,361
Town of Bridgeville	250,000	153,182	153,182
City of Rehoboth Beach	5,000,000	4,122,749	4,351,160
City of Seaford	2,729,408	2,716,332	2,766,288
City of Dover	2,404,017	2,254,263	2,354,745
Town of Delmar	1,392,896	415,721	149,964
Town of Middletown	3,011,000	726,527	490,686
City of Milford	4,045,000	180,354	98,071
Town of Selbyville	1,400,000	1,069,281	161,319
Town of Georgetown	<u>7,651,500</u>	<u>2,194,518</u>	<u>409,673</u>
Total Municipal	132,343,071	95,033,920	81,286,035
<b>Investor-Owned</b>			
Artesian Water Company	20,187,644	9,500,295	8,888,128
Tidewater Utilities, Inc.	14,524,493	9,926,755	10,413,123
J.H. Wilkerson & Son, Inc.	<u>410,800</u>	<u>223,500</u>	<u>232,531</u>
Total Investor-Owned	35,122,937	19,650,550	19,533,782
<b>Mobile Home Park</b>			
Innovative Construction	\$ <u>34,321</u>	\$ <u>16,844</u>	\$ <u>18,580</u>
	<u>\$167,500,329</u>	114,701,314	100,838,397
Less: ARRA reserve		<u>9,768,245</u>	<u>9,752,630</u>
Loans Receivable		104,933,069	91,085,767
Less: loans receivable - Current portion		<u>4,226,804</u>	<u>4,379,384</u>
Loans Receivable - Net of Current Portion		<u>\$ 100,706,265</u>	<u>\$ 86,706,383</u>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 8 - Loans Receivable (Continued)**

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$2,874,832 and \$2,508,972 for the years ended June 30, 2013 and 2012, respectively.

Loan maturities vary based on individual agreements. General Obligation and Municipal Revenue Bonds are collateral for municipal loans; business assets and real estate are collateral for investor-owned and mobile home park loans.

There was no allowance for doubtful accounts as of June 30, 2013 and 2012. As of June 30, 2013 and 2012, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2013 and 2012. There has been no history of significant bad debts or uncollectible accounts.

The ARRA reserve of \$9,768,245 and \$9,752,630 represents expenditures for loans that were reclassified as grants to the municipalities at the time of disbursement, as of June 30, 2013 and 2012 respectively. The respective construction periods for these loans are completed.

**Note 9 - Unearned Revenue - State Match**

During 2013, \$5,410,035 were transferred from the Fund to WPCRLF, see Note 6. As of June 30, 2013, the Fund had no available State match funding in its separate cash account as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed</u>	<u>Remaining Balance</u>
1997	\$ 2,511,760	\$ 2,511,760	\$ -
1999	2,917,020	2,917,020	-
2001	1,551,400	1,551,400	-
2002	1,557,820	1,557,820	-
2003	1,610,500	1,610,500	-
2004	1,600,820	1,600,820	-
2005	1,660,620	1,660,620	-
2006	1,657,100	1,657,100	-
2007	1,645,860	1,645,860	-
2009 *	453,598	453,598	-
2010 *	367,714	367,714	-
2011	1,883,600	1,883,600	-
2012	<u>1,795,000</u>	<u>1,795,000</u>	<u>-</u>
Total	<u>\$21,212,812</u>	<u>\$21,212,812</u>	<u>\$ -</u>

\* Amounts were adjusted to reflect deobligation of federal funding, see Note 6.

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 9 - Unearned Revenue - State Match (Continued)**

Interest earned on cash deposits totaled \$117,570 and \$134,031 for the years ended June 30, 2013 and 2012, respectively.

For the grant year 2008, the Fund's required state match was \$1,407,338 of which the entire amount was disbursed from nonfederal administrative funds as of June 30, 2013.

**Note 10 - Pension**

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$124,353 for 2013 and \$96,868 for 2012 is included in salaries and related benefits.

Detailed information regarding this plan is available in the Delaware Code and the Rules and Regulations of the Board of Pension Trustees. Certain significant plan provisions include:

Plan Description and Eligibility - The State Employees' Pension Plan is a cost-sharing single employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Post-2011 Employee - Post-2011 employee shall mean an employee, as defined in 29 Del C., c. 55 §5501(e), who is first employed by the State on or after January 1, 2012.

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

For Post-2011 employees, final average compensation per House Bill 81 shall include:

1. 1/36 of the compensation, minus overtime payments, paid to an employee during any period of 36 consecutive months or any 36 months comprised of three periods of 12 consecutive months in that employee's years of service credited under paragraphs (d)(1), (2), and (3) of 29 Del. C. §5202 in which that employee's compensation was highest, or the average monthly compensation paid to an employee during that period if such period is less than 36 months, plus
2. The dollar amounts of awards received under the "Teacher of the Year" and "Delaware Award for Excellence and Commitment in State Service" programs, plus
3. The total dollar amount of final lagged payments for credited service received by employees as defined under §2712 of Title 29.

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 10 - Pension (Continued)**

Vesting - Five (5) years of credited service. For Post-2011 employees, ten years of credited service at any age.

Retirement - Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

For Post-2011 employees, age 65 with ten years of credited service, exclusive of service credited under 29 Del C. § 5501(d) (12); age 60 with 20 years of credited service, exclusive of service credited under 29 Del C. § 5501(d) (12); or after 30 years of credited service at any age.

Disability Benefits - Same as Service Benefits. Employee must have five (5) years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006.

Survivor Benefits - If the employee is receiving a pension, the eligible survivor receives 50% (or 75% with 3% reduction of benefit). If the employee is active with at least five (5) years of credited service, the eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions

Employer - Determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000.

Post-2011 employees - 5% of earnings in excess of \$6,000.

Death Benefit - \$7,000 per member.

The 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.

**Note 11 - Commitments and Contingencies**

**A. Loans**

The Fund has met its prior binding commitments (equal to at least 120% of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2013, there were cumulative binding commitments of \$167,500,329.

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**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**Note 11 - Commitments and Contingencies (Continued)**

**B. Cost Reimbursement Contracts**

The Fund derives all of its nonoperating revenue from EPA Capitalization Grants for State Revolving Fund program and mandatory State matching funds that are contracts based on the reimbursement of allowable costs related to the program. Costs are subject to review by the EPA. Any adjustments arising from disallowed costs are recorded in the Fund's financial statements.

**Note 12 - Risk Management**

The Fund is insured under the State's insurance plans. The State is exposed to various risks of losses related to workers' compensation, employee healthcare and accident, automobile accident, police professional malpractice, and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claim liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2013, there were no outstanding or pending claims against the Fund.

**Note 13 - Prior Period Reclassifications**

As discussed in Note 2, the Treasurer issued information illustrating the percentages of cash and cash equivalents, short-term and long-term investments in the State's pooled cash account for the years ended June 30, 2013 and 2012. The Fund's financial statements of net position and cash flows, and supplemental information as of and for the year ended June 30, 2012 were reclassified in conformity with the 2013 presentation.

**Note 14 - Subsequent Events**

The Fund's policy is to evaluate events and transactions subsequent to year end for potential recognition in the financial statements or disclosures in the notes to the financial statements. Management has evaluated all events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

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**Supplemental Information**

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Fund Net Position by Fund**  
**For the Year Ended June 30, 2013**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 4,840,521	\$ -	\$ -	\$ -	\$ -	\$ 4,840,521
Investments - short term	15,754,963	-	-	-	-	15,754,963
Loans receivable	4,226,804	-	-	-	-	4,226,804
Interest receivable	704,890	-	-	-	-	704,890
Federal grants receivable	4,440	-	10,978	59,724	11,177	86,319
<b>Total Current Assets</b>	<b>25,531,618</b>	<b>-</b>	<b>10,978</b>	<b>59,724</b>	<b>11,177</b>	<b>25,613,497</b>
<b>Noncurrent Assets</b>						
Investments - long-term	2,676,249	-	-	-	-	2,676,249
Loans receivable	100,706,265	-	-	-	-	100,706,265
<b>Total Noncurrent Assets</b>	<b>103,382,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>103,382,514</b>
<b>Total Assets</b>	<b>\$ 128,914,132</b>	<b>\$ -</b>	<b>\$ 10,978</b>	<b>\$ 59,724</b>	<b>\$ 11,177</b>	<b>\$ 128,996,011</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Vouchers Payable	\$ -	\$ -	\$ 10,978	\$ 59,724	\$ 11,177	\$ 81,879
<b>Total Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>10,978</b>	<b>59,724</b>	<b>11,177</b>	<b>81,879</b>
<b>Long-Term Liabilities</b>						
Unearned revenue - state match	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>10,978</b>	<b>59,724</b>	<b>11,177</b>	<b>81,879</b>
<b>Net Position</b>						
Net position - restricted	128,914,132	-	-	-	-	128,914,132
<b>Total Liabilities and Net Position</b>	<b>\$ 128,914,132</b>	<b>\$ -</b>	<b>\$ 10,978</b>	<b>\$ 59,724</b>	<b>\$ 11,177</b>	<b>\$ 128,996,011</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Fund Net Position by Fund**  
**For The Year Ended June 30, 2012**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 9,644,574	\$ -	\$ -	\$ -	\$ -	\$ 9,644,574
Investments - short-term	13,709,434	-	-	-	-	13,709,434
Loans receivable	4,379,384	-	-	-	-	4,379,384
Interest receivable	710,484	-	-	-	-	710,484
Federal grants receivable	110,703	-	12,919	15,806	31,786	171,214
<b>Total Current Assets</b>	<b>28,554,579</b>	<b>-</b>	<b>12,919</b>	<b>15,806</b>	<b>31,786</b>	<b>28,615,090</b>
<b>Noncurrent Assets</b>						
Investments - long-term	1,893,569	-	-	-	-	1,893,569
Loans receivable	86,706,383	-	-	-	-	86,706,383
<b>Total Noncurrent Assets</b>	<b>88,599,952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88,599,952</b>
<b>Total Assets</b>	<b>\$ 117,154,531</b>	<b>\$ -</b>	<b>\$ 12,919</b>	<b>\$ 15,806</b>	<b>\$ 31,786</b>	<b>\$ 117,215,042</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Vouchers payable	54,003	-	12,919	15,806	31,786	114,514
<b>Total Current Liabilities</b>	<b>54,003</b>	<b>-</b>	<b>12,919</b>	<b>15,806</b>	<b>31,786</b>	<b>114,514</b>
<b>Long-Term Liabilities</b>						
Unearned revenue - state match	6,247,285	-	-	-	-	6,247,285
<b>Total Liabilities</b>	<b>6,301,288</b>	<b>-</b>	<b>12,919</b>	<b>15,806</b>	<b>31,786</b>	<b>6,361,799</b>
<b>Net Position</b>						
Net position - restricted	110,853,243	-	-	-	-	110,853,243
<b>Total Liabilities and Net Position</b>	<b>\$ 117,154,531</b>	<b>\$ -</b>	<b>\$ 12,919</b>	<b>\$ 15,806</b>	<b>\$ 31,786</b>	<b>\$ 117,215,042</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Activities by Fund**  
**For the Year Ended June 30, 2013**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Operating Revenues</b>						
Interest income - loans	\$ 1,437,416	\$ -	\$ -	\$ -	\$ -	\$ 1,437,416
Interest income - administrative fees	1,437,416	-	-	-	-	1,437,416
Loan origination fees	26,000	-	-	-	-	26,000
Grant revenue	13,223,282	153,734	454,869	1,291,942	1,052,898	16,176,725
Principal forgiveness	(797,431)	-	-	-	-	(797,431)
ARRA loan forgiveness	(15,614)	-	-	-	-	(15,614)
Write off of receivables	-	-	-	-	-	-
State match	3,827,737	-	-	-	-	3,827,737
<b>Total Operating Revenue</b>	<b>19,138,806</b>	<b>153,734</b>	<b>454,869</b>	<b>1,291,942</b>	<b>1,052,898</b>	<b>22,092,249</b>
<b>Operating Expenses</b>						
Grant to WPCRLF	1,195,487	-	-	-	-	1,195,487
Salaries and related benefits	-	-	311,191	384,909	289,101	985,201
Contract services	-	71,919	103,171	334,840	181,033	690,963
Indirect costs	-	-	40,332	24,980	36,359	101,671
Subgrants	-	-	-	328,311	474,342	802,653
Supplies	-	-	175	75,679	15,185	91,039
Equipment	-	-	-	135,010	-	135,010
Training	-	81,815	-	3,627	55,583	141,025
Travel	-	-	-	4,586	1,295	5,881
<b>Total Operating Expenses</b>	<b>1,195,487</b>	<b>153,734</b>	<b>454,869</b>	<b>1,291,942</b>	<b>1,052,898</b>	<b>4,148,930</b>
<b>Operating Income</b>	<b>17,943,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,943,319</b>
<b>Nonoperating Revenues and Expenses</b>						
Interest Income - Cash	117,570	-	-	-	-	117,570
<b>Total Nonoperating Revenues and Expenses</b>	<b>117,570</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,570</b>
<b>Increase in Net Position</b>	<b>18,060,889</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,060,889</b>
<b>Net Position - Beginning of Year</b>	<b>110,853,243</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110,853,243</b>
<b>Net Position - End of Year</b>	<b>\$ 128,914,132</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 128,914,132</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Activities by Fund**  
**For the Year Ended June 30, 2012**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Operating Revenue</b>						
Interest income - loans	\$ 1,254,486	\$ -	\$ -	\$ -	\$ -	\$ 1,254,486
Interest income - administrative fees	1,254,486	-	-	-	-	1,254,486
Loan origination fees	89,317	-	-	-	-	89,317
Grant revenue	11,930,587	169,919	542,163	803,780	943,940	14,390,389
ARRA loan forgiveness	(1,183,378)	-	-	-	-	(1,183,378)
Write off of receivables	(16,000)	-	-	-	-	(16,000)
State match	720,891	-	-	-	-	720,891
<b>Total Operating Revenue</b>	<b>14,050,389</b>	<b>169,919</b>	<b>542,163</b>	<b>803,780</b>	<b>943,940</b>	<b>16,510,191</b>
<b>Operating Expenses</b>						
Salaries and related benefits	-	-	325,396	359,521	243,028	927,945
Contract services	-	156,710	98,417	134,194	144,862	534,183
Indirect costs	-	-	18,641	13,561	13,342	45,544
Subgrants	-	-	90,959	268,334	468,661	827,954
Supplies	-	2,584	7,390	15,569	29,489	55,032
Equipment	-	-	-	1,626	2,218	3,844
Training	-	10,625	-	-	39,211	49,836
Travel	-	-	1,360	10,975	3,129	15,464
<b>Total Operating Expenses</b>	<b>-</b>	<b>169,919</b>	<b>542,163</b>	<b>803,780</b>	<b>943,940</b>	<b>2,459,802</b>
<b>Operating Income</b>	<b>14,050,389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,050,389</b>
<b>Nonoperating Revenues</b>						
Interest income - cash accounts	134,031	-	-	-	-	134,031
<b>Total Nonoperating Revenues</b>	<b>134,031</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>134,031</b>
<b>Increase in Net Position</b>	<b>14,184,420</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,184,420</b>
<b>Net Position - Beginning of Year</b>	<b>96,668,823</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96,668,823</b>
<b>Net Position - End of Year</b>	<b>\$ 110,853,243</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 110,853,243</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedules of Fund Net Position by Classification**  
**June 30, 2013 and 2012**

	2013				2012			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
<b>Assets</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ -	\$ 4,433,828	\$ 406,693	\$ 4,840,521	\$ -	\$ 7,273,900	\$ 2,370,674	\$ 9,644,574
Investments - short-term	-	10,540,176	5,214,787	15,754,963	-	10,339,601	3,369,833	13,709,434
Loans receivable - current portion	-	4,226,804	-	4,226,804	-	4,379,384	-	4,379,384
Interest receivable	-	352,445	352,445	704,890	-	355,242	355,242	710,484
Due to/(from)	-	672,175	(672,175)	-	-	-	-	-
Federal grants receivable	81,879	4,440	-	86,319	60,511	110,703	-	171,214
<b>Total Current Assets</b>	<b>81,879</b>	<b>20,229,868</b>	<b>5,301,750</b>	<b>25,613,497</b>	<b>60,511</b>	<b>22,458,830</b>	<b>6,095,749</b>	<b>28,615,090</b>
<b>Noncurrent Assets</b>								
Investments - long-term	-	1,790,428	885,821	2,676,249	-	1,428,122	465,447	1,893,569
Loans receivable - net of current portion	-	100,706,265	-	100,706,265	-	86,706,383	-	86,706,383
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>102,496,693</b>	<b>885,821</b>	<b>103,382,514</b>	<b>-</b>	<b>88,134,505</b>	<b>465,447</b>	<b>88,599,952</b>
<b>Total Assets</b>	<b>\$ 81,879</b>	<b>\$ 122,726,561</b>	<b>\$ 6,187,571</b>	<b>\$ 128,996,011</b>	<b>\$ 60,511</b>	<b>\$ 110,593,335</b>	<b>\$ 6,561,196</b>	<b>\$ 117,215,042</b>
<b>Liabilities</b>								
<b>Current Liabilities</b>								
Vouchers payable	\$ 81,879	\$ -	\$ -	\$ 81,879	\$ 60,511	\$ 54,003	\$ -	\$ 114,514
<b>Total Current Liabilities</b>	<b>81,879</b>	<b>-</b>	<b>-</b>	<b>81,879</b>	<b>60,511</b>	<b>54,003</b>	<b>-</b>	<b>114,514</b>
<b>Long-Term Liabilities</b>								
Unearned revenue - state match	-	-	-	-	-	6,247,285	-	6,247,285
<b>Total Liabilities</b>	<b>81,879</b>	<b>-</b>	<b>-</b>	<b>81,879</b>	<b>60,511</b>	<b>6,301,288</b>	<b>-</b>	<b>6,361,799</b>
<b>Net Position</b>								
Net position - restricted	-	122,726,561	6,187,571	128,914,132	-	104,292,047	6,561,196	110,853,243
<b>Total Liabilities and Net Position</b>	<b>\$ 81,879</b>	<b>\$ 122,726,561</b>	<b>\$ 6,187,571</b>	<b>\$ 128,996,011</b>	<b>\$ 60,511</b>	<b>\$ 110,593,335</b>	<b>\$ 6,561,196</b>	<b>\$ 117,215,042</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedules of Activities by Classification**  
**June 30, 2013 and 2012**

	2013				2012			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Operating Revenue								
Interest income - loans	\$ -	\$ 1,437,416	\$ -	\$ 1,437,416	\$ -	\$ 1,254,486	\$ -	\$ 1,254,486
Interest income - administrative fees	-	-	1,437,416	1,437,416	-	-	1,254,486	1,254,486
Loan origination fees	-	-	26,000	26,000	-	-	89,317	89,317
Grant revenue	2,953,443	13,223,282	-	16,176,725	2,459,802	11,930,587	-	14,390,389
ARRA loan forgiveness	-	(15,614)	-	(15,614)	-	(1,183,378)	-	(1,183,378)
Principal forgiveness	-	(797,431)	-	(797,431)	-	-	-	-
Write off of receivables	-	-	-	-	-	-	(16,000)	(16,000)
State match	-	4,499,912	(672,175)	3,827,737	-	2,133,116	(1,412,225)	720,891
<b>Total Operating Revenue</b>	<b>2,953,443</b>	<b>18,347,565</b>	<b>791,241</b>	<b>22,092,249</b>	<b>2,459,802</b>	<b>14,134,811</b>	<b>(84,422)</b>	<b>16,510,191</b>
Operating Expenses								
Grant to WPCRLF	-	-	1,195,487	1,195,487	-	-	-	-
Salaries and related benefits	985,201	-	-	985,201	927,945	-	-	927,945
Contract services	690,963	-	-	690,963	534,183	-	-	534,183
Indirect costs	101,671	-	-	101,671	45,544	-	-	45,544
Subgrants	802,653	-	-	802,653	827,954	-	-	827,954
Supplies	91,039	-	-	91,039	55,032	-	-	55,032
Equipment	135,010	-	-	135,010	3,844	-	-	3,844
Training	141,025	-	-	141,025	49,836	-	-	49,836
Travel	5,881	-	-	5,881	15,464	-	-	15,464
<b>Total Operating Expenses</b>	<b>2,953,443</b>	<b>-</b>	<b>1,195,487</b>	<b>4,148,930</b>	<b>2,459,802</b>	<b>-</b>	<b>-</b>	<b>2,459,802</b>
Operating Income (Loss)	-	18,347,565	(404,246)	17,943,319	-	14,134,811	(84,422)	14,050,389
Nonoperating Revenues								
Interest income - cash accounts	-	86,949	30,621	117,570	-	96,754	37,277	134,031
<b>Total Nonoperating Revenues</b>	<b>-</b>	<b>86,949</b>	<b>30,621</b>	<b>117,570</b>	<b>-</b>	<b>96,754</b>	<b>37,277</b>	<b>134,031</b>
Change in Net Position	-	18,434,514	(373,625)	18,060,889	-	14,231,565	(47,145)	14,184,420
Net Position - Beginning of Year	-	104,292,047	6,561,196	110,853,243	-	90,060,482	6,608,341	96,668,823
Net Position - End of Year	\$ -	\$ 122,726,561	\$ 6,187,571	\$ 128,914,132	\$ -	\$ 104,292,047	\$ 6,561,196	\$ 110,853,243

# Zelenkofske Axelrod LLC

## Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Management of the State of Delaware Drinking Water Revolving Loan Fund  
Dover, DE

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Delaware Drinking Water Revolving Loan Fund, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Delaware Drinking Water Revolving Loan Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Delaware Drinking Water Revolving Loan Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2013-1 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Delaware Drinking Water Revolving Loan Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as finding 2013-1.

### **State of Delaware Drinking Water Revolving Loan Fund's Response to Findings**

State of Delaware Drinking Water Revolving Loan Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. State of Delaware Drinking Water Revolving Loan Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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# Zelenkofske Axelrod LLC

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania

April 23, 2014

State of Delaware Drinking Water Revolving Loan Fund  
Schedule of Findings and Responses  
For the Year Ended June 30, 2013

Current Year Findings

Finding 2013-1

Accounting Records

**Criteria:** The Environmental Protection Agency, from which the State of Delaware Drinking Water Revolving Loan Fund (“Fund”) receives the majority of its grant funding, requires the fund to maintain an accurate up-to-date accrual basis general ledger to account for the activity of the Fund.

**Condition:** The Fund does not maintain a general ledger that accounts for all the activity of the fund. There is no consolidation of the accounting records of the Fund, therefore, it is not possible to obtain financial statements that would include a statement of net position and a statement of revenues and expenses and changes in net position. The Fund only maintains the revenue and expense activity during the year in its accounting software. Loan activity is maintained on separate excel spreadsheets throughout the year, and no other balance sheet accounts are maintained. Some activity for sub-funds of the Fund is maintained on spreadsheets; however, it is not maintained in a financial statement format. Other activity of the sub-funds is included in First State Financials (FSF) accounting system recorded by appropriation.

The Fund contracted a third-party CPA firm to compile the June 30, 2013, financial statements. During the course of this compilation, the third-party CPA firm posted a large number of adjustments to reconcile the general ledger accounts to supporting subsidiary schedules maintained on separate excel spreadsheets. In addition, based on audit inquiries, additional significant adjustments were made to cash, unearned revenue, grant revenue, state match, operating expenses, as well as balances between funds and classifications.

Additional audit entries were posted as a result of the audit to the financial statements.

**Cause:** The complete financial activity of the Fund was not recorded during the year in the Fund’s general ledger.

**Effect:** The Fund did not reflect the correct financial activity of the Fund throughout the year on its accounting software, resulting in a large number of year end adjustments made by the third-party CPA firm and the agency. Transactions were improperly recorded in the trial balances, financial statements, notes and schedules of activities. Management’s financial information is not up to date to assist in managing financial decisions for the Fund.

**Recommendation:** The Fund should maintain its accounting system on the accrual basis throughout the year reflecting all activity of the Fund during the year that would include a statement of net position and a statement of revenues and expenses and changes in net position. Management should review the trial balances on a monthly basis to ensure all activity of the Fund is appropriately included.

State of Delaware Drinking Water Revolving Loan Fund  
Schedule of Findings and Responses (Continued)  
For the Year Ended June 30, 2013

Current Year Findings (Continued)

Finding 2013-1

Accounting Records (Continued)

When compiling the financial statements, the third-party CPA firm should be made aware of all activity of the Fund and should appropriately include it within the compiled financial statements. Management should review the compiled financial statements to ensure all of the activity is included.

Management's  
Response:

The Drinking Water Fund and The DNREC Financial Assistance Branch are implementing a software application that will encompass all funds related to the Drinking Water State Revolving Fund program, including loan ledgers. This will allow consolidated records. The Fund is working with DNREC's Financial Assistance Branch to insure activity is appropriately recorded.

State of Delaware Drinking Water Revolving Loan Fund  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013

The summary which follows indicates the current year status of findings identified in the prior year Audit Report.

Prior Year Findings

<u>Prior Year Finding</u>	<u>Brief Description of Finding</u>	<u>Current Year Status</u>
12-01	Audit Adjustments	See Finding 2013-1
12-02	Loan Reconciliation	Resolved