

**State of Delaware Drinking Water Revolving Loan Fund  
Financial Statements  
June 30, 2016 and 2015**

Report Issued: January 17, 2017

---

**Table of Contents**

Independent Auditors' Report.....1

Management's Discussion and Analysis .....4

Financial Statements

    Statements of Net Position.....9

    Statements of Revenues, Expenses, and  
        Changes in Net Position .....10

    Statements of Cash Flows.....11

    Notes to Financial Statements .....12

Supplemental Information

    Schedule of Fund Net Position by Fund – June 30, 2016 .....29

    Schedule of Fund Net Position by Fund – June 30, 2015.....30

    Schedule of Activities by Fund – June 30, 2016 .....31

    Schedule of Activities by Fund – June 30, 2015 .....32

    Schedules of Fund Net Position by Classification – June 30, 2016 and 2015 .....33

    Schedules of Activities by Classification – June 30, 2016 and 2015.....34

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* .....35

---

# 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 financial statements of the Delaware Drinking Water Revolving Loan Fund of the State of Delaware, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Drinking Water Revolving Loan Fund, of the State of Delaware as of June 30, 2016 and 2015, 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.

---

#### **Harrisburg**

830 Sir Thomas Court, Suite 100  
Harrisburg, PA 17109  
717.561.9200 Fax 717.561.9202

#### **Philadelphia**

2370 York Road, Suite A-5  
Jamison, Pa 18929  
215.918.2277 Fax 215.918.2302

#### **Pittsburgh**

3800 McKnight E. Drive, Suite 3805  
Pittsburgh, PA 15237  
412.367.7102 Fax 412.367.7103

#### **Greensburg**

210 Tollgate Hill Road  
Greensburg, PA 15601  
724.834.2151 Fax 724.834.5969

# Zelenkofske Axelrod LLC

## **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the 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, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

As discussed in Note 1 to the financial statements, during the fiscal year ending June 30, 2016, the Delaware Drinking Water Revolving Loan Fund adopted the provisions of Governmental Accounting Standards Board's Statement No. 72, "*Fair Value Measurement and Application*", Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", and Statement No. 79, "*Certain External Investment Pools and Pool Participants*". Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Delaware Drinking Water Revolving Loan Fund's basic financial statements. The Schedules of Fund Net Position by Fund, Schedules of Activities by Fund, Schedules of Fund Net Position by Classification, and Schedules of Activities by Classification are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedules of Fund Net Position by Fund, Schedules of Activities by Fund, Schedules of Fund Net Position by Classification, and Schedules of Activities by Classification are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Fund Net Position by Fund, Schedules of Activities by Fund, Schedules of Fund Net Position by Classification, and Schedules of Activities by Classification are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

# Zelenkofske Axelrod LLC

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017, on our consideration of the Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting and compliance.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
January 3, 2017

**State of Delaware Drinking Water Revolving Loan Fund  
Management's Discussion and Analysis  
June 30, 2016 and 2015**

As management of the State of Delaware Drinking Water Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2016 and June 30, 2015. 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.

Beginning July 1, 2013, the Fund is administered by the Department of Natural Resources and Environmental Control (DNREC). The primary activities include making loans, providing direct assistance, and managing the Fund to meet the objectives of the Act.

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

The Fund's activities are accounted for as a distinct operating unit within the DNREC. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the 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 \$7,895.1 in fiscal year 2016, which represents an increase of 5.4%. The increase in net position in 2016 was higher due to decreased loan forgiveness. The Fund realized a change in net position of \$7,637.2 in fiscal year 2015, which represents an increase of 5.5%. The increase in net position in 2015 was smaller due to decreased loan disbursement activity.

Grant revenue recognized from the federal and state governments totaled \$9,761.2 in fiscal year 2016, a 22.4% decrease from fiscal year 2015, due to decreased State match revenues and a decrease in federal grants. Grant revenue recognized from the federal and state governments totaled \$12,571.7 in fiscal year 2015, a 46.7% increase from fiscal year 2014, largely due to increased Federal grant revenues.

Loans made totaled \$10,575.5 during fiscal year 2016, which represents a decrease of \$298.2 from the previous year. This decrease of 2.7% was caused by decreased draws on existing loans from municipalities and others through the State. Loans made during 2015 totaled \$10,873.7, which represents an increase of \$3,816.9 from the previous year. This increase of 54.1% was caused by increased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$6,105.9 during fiscal year 2016. This represents an overall increase of \$635.3, 11.6%, from 2015 due to increased borrowings and principal payments by loan recipients. Loan collections (principal) totaled \$5,470.6 during 2015. This represents an overall increase of \$1,110.3, 25.5%, from the prior year.

### **Statement of Net Position**

The total net position of the Fund for years ended June 30, 2016 and 2015 increased by \$7,895.1 and \$7,637.2, respectively. The following condensed statement of net position (Table 1) shows a summary of changes in dollars for the Fund for fiscal years ended June 30, 2016, 2015 and 2014.

During fiscal year 2016, pooled cash increased by approximately \$5,863.3, 15.5%, to \$43,592.3 based on a decrease in loans made to grants received from the EPA and State, as well as loan origination and administration fees received. Loans receivable increased, by \$3,864.7, 3.6%, to \$111,801.5, mostly as a result of increased draws in existing loans from municipalities. Federal grants receivable decreased by approximately \$534.5, 87.3%, mostly due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2016.

During fiscal year 2015, pooled cash increased by approximately \$6,681.8, 21.5%, to \$37,729.0 based on an increase in grants received from the EPA and State. Loans receivable increased, by \$586.0, .5%, to \$107,936.8, mostly as a result of increased draws in existing loans from municipalities. Federal grants receivable increased by approximately \$265.9, 76.7%, mostly due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2015.

Vouchers payable in 2016 increased by \$1,146.9, or 157.2% from the prior year as a result of timing of disbursements at year end for 2016. Vouchers payable in 2015 increased by \$298.3 or 69.2% for the same reason.

Unearned revenue from the State match increased by \$172.7, 100%, as the Fund received committed State grant funding, which was available to be disbursed as loan proceeds to municipalities.

Table 1  
Statement of Net Position  
(Thousands of Dollars)

	June 30,		
	2016	2015	2014
<b>Current Assets</b>			
Pooled cash	\$ 43,592.3	\$ 37,729.0	\$ 31,047.2
Loans, current portion	6,266.9	5,844.1	5,241.0
Loan interest	700.3	679.1	685.1
Federal grants receivable	77.9	612.4	346.5
<b>Total Current Assets</b>	<b>50,637.4</b>	<b>44,864.6</b>	<b>37,319.8</b>
<b>Noncurrent Assets</b>			
Loans, net of current portion	105,534.6	102,092.7	102,109.8
<b>Total Noncurrent Assets</b>	<b>105,534.6</b>	<b>102,092.7</b>	<b>102,109.8</b>
<b>Total Assets</b>	<b>\$ 156,172.0</b>	<b>\$ 146,957.3</b>	<b>\$ 139,429.6</b>
<b>Current Liabilities</b>			
Vouchers payable	\$ 1,876.3	\$ 729.4	\$ 431.1
<b>Total Current Liabilities</b>	<b>1,876.3</b>	<b>729.4</b>	<b>431.1</b>
<b>Noncurrent Liabilities</b>			
Unearned revenue - state match	172.7	-	407.8
<b>Total Liabilities</b>	<b>2,049.0</b>	<b>729.4</b>	<b>838.9</b>
<b>Net Position - Restricted</b>	<b>154,123.0</b>	<b>146,227.9</b>	<b>138,590.7</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 156,172.0</b>	<b>\$ 146,957.3</b>	<b>\$ 139,429.6</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, 2016, 2015, and 2014 (Table 2).

Federal grant revenue decreased by \$2,287.5, 21.9%, and the State match revenue decreased by \$523.0, 24.8%, during fiscal year 2016 as a lower volume of loans were due to an overall decrease in grants compared to the prior years. Federal grant revenue increased by \$3,168.4, 43.4%, and the State match revenue increased by \$831.2, 65.1%, during fiscal year 2015 due to an overall increase in grants compared to the prior years.

Interest income from pooled cash deposits increased by \$141.3, 103.7% during fiscal year 2016, \$67.8, 99.0%, during fiscal year 2015, due mainly to increases in pooled cash and fluctuations in interest rates utilized by the Treasurer of the State of Delaware.

In 2016, operating expenses increased by approximately \$113.0, 3.7%, due mainly to personnel costs (salaries and related benefits) and grant expenses.

In 2015, operating expenses increased by approximately \$446.9, 17.0%, due mainly to increased overall grant activity resulting in increased contractual services, personnel costs (salaries and related benefits) and indirect costs, offset by a decrease in training.

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

	June 30,		
	2016	2015	2014
<b>Operating Revenues</b>			
Interest income - loans and administrative fees	\$ 2,877.2	\$ 2,913.2	\$ 3,899.6
Loan origination fees	2.4	45.4	36.9
Grant revenue	8,176.5	10,464.0	7,295.6
Principal forgiveness	(1,841.8)	(4,960.9)	(278.9)
State match	1,584.7	2,107.7	1,276.5
<b>Total Operating Revenues</b>	<b>10,799.0</b>	<b>10,569.4</b>	<b>12,229.7</b>
<b>Operating Expenses</b>			
Salaries and related benefits	1,610.6	1,536.4	1,452.1
Contract services	966.4	881.7	551.1
Grants	195.9	13.1	-
Indirect costs	327.1	450.0	329.4
Supplies	69.2	104.5	35.6
Training	0.5	68.5	240.4
Travel	11.8	14.3	13.0
<b>Total Operating Expenses</b>	<b>3,181.5</b>	<b>3,068.5</b>	<b>2,621.6</b>
<b>Operating Income</b>	<b>7,617.5</b>	<b>7,500.9</b>	<b>9,608.1</b>
<b>Nonoperating Revenue</b>			
Interest income - pooled cash deposits	277.6	136.3	68.5
<b>Total Nonoperating Revenue</b>	<b>277.6</b>	<b>136.3</b>	<b>68.5</b>
<b>Change in Net Position</b>	<b>7,895.1</b>	<b>7,637.2</b>	<b>9,676.6</b>
<b>Net Position - Beginning of Year</b>	<b>146,227.9</b>	<b>138,590.7</b>	<b>128,914.1</b>
<b>Net Position - End of Year</b>	<b>\$ 154,123.0</b>	<b>\$ 146,227.9</b>	<b>\$ 138,590.7</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:

Cheryl Anderson  
State of Delaware  
Department of Natural Resources & Environmental Control  
Division of Water Resources  
5 E. Reed Street, Suite 200  
Dover, DE 19901

**State of Delaware Drinking Water Revolving Loan Fund**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

	2016	2015
Assets		
Current Assets:		
Pooled cash	\$ 43,592,265	\$ 37,728,995
Loans receivable	6,266,905	5,844,150
Interest receivable	700,252	679,069
Federal grants receivable	77,961	612,432
Total Current Assets	50,637,383	44,864,646
Noncurrent Assets:		
Loans receivable	105,534,617	102,092,653
Total Noncurrent Assets	105,534,617	102,092,653
Total Assets	\$ 156,172,000	\$ 146,957,299
Liabilities		
Current Liabilities:		
Vouchers payable	\$ 1,876,309	\$ 729,413
Total Current Liabilities	1,876,309	729,413
Noncurrent Liabilities:		
Unearned revenue - state match	172,734	-
Total Liabilities	2,049,043	729,413
Net Position		
Net position - restricted	154,122,957	146,227,886
Total Liabilities and Net Position	\$ 156,172,000	\$ 146,957,299

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, 2016 and 2015**

	2016	2015
Operating Revenues		
Interest income - loans	\$ 1,422,885	\$ 1,456,581
Interest income - administrative fees	1,454,429	1,456,581
Loan origination fees	2,375	45,375
Grant revenue	8,176,510	10,463,986
Principal forgiveness	(1,841,848)	(4,960,872)
State match	1,584,666	2,107,741
 Total Operating Revenues	 10,799,017	 10,569,392
Operating Expenses		
Salaries and related benefits	1,610,586	1,536,413
Contract services	966,456	881,707
Grants	195,919	13,066
Indirect costs	327,085	449,971
Supplies	69,207	104,463
Training	501	68,563
Travel	11,777	14,297
 Total Operating Expenses	 3,181,531	 3,068,480
 Operating Income	 7,617,486	 7,500,912
Nonoperating Revenues		
Interest income - cash accounts	277,585	136,271
 Total Nonoperating Revenues	 277,585	 136,271
 Change in Net Position	 7,895,071	 7,637,183
 Net Position - Beginning of Year	 146,227,886	 138,590,703
 Net Position - End of Year	 \$ 154,122,957	 \$ 146,227,886

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, 2016 and 2015**

	2016	2015
Cash flow from operating activities		
Loan repayments	\$ 6,105,928	\$ 5,470,556
Interest income - loans	1,425,035	1,458,731
Interest income - administrative fees	1,458,274	1,460,426
Loan origination fees	2,375	45,375
Grants received from EPA	8,710,981	10,198,143
Grants received from the State of Delaware	1,757,400	1,700,000
Loan disbursements	(10,575,461)	(10,873,703)
Salaries and related benefits paid	(1,610,586)	(1,536,413)
General expenses paid	(1,688,261)	(1,377,541)
Net cash provided by operating activities	5,585,685	6,545,574
Cash flow from investing activity		
Interest received from cash deposits	277,585	136,271
Net cash provided by investing activity	277,585	136,271
Increase in pooled cash	5,863,270	6,681,845
Pooled cash - beginning of year	37,728,995	31,047,150
Pooled cash - end of year	\$ 43,592,265	\$ 37,728,995
Reconciliation of operating income to net cash provided by operating activities		
Cash provided by operating activities		
Operating income	\$ 7,617,486	\$ 7,500,912
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Increase in loans receivable	(3,864,719)	(586,038)
Increase in federal grants receivable	534,471	(265,843)
Increase/(decrease) in unearned revenue - state match	172,734	(407,741)
Decrease/(increase) in interest and dividends receivable	(21,183)	5,995
Increase in vouchers payable	1,146,896	298,289
Net cash provided by operating activities	\$ 5,585,685	\$ 6,545,574

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, 2016 and 2015**

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

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

<u>Grant Year</u>	<u>Total Available Funding</u>	<u>Federal Portion</u>	<u>State Portion</u>
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2011*	124,950,898	104,125,748	20,825,150
2012	10,770,000	8,975,000	1,795,000
2013	10,105,200	8,421,000	1,684,200
2014	10,614,000	8,845,000	1,769,000
2015	<u>10,544,400</u>	<u>8,787,000</u>	<u>1,757,400</u>
Total	<u>\$186,484,498</u>	<u>\$158,653,748</u>	<u>\$27,830,750</u>

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

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 2015 corresponds to the Fund's 2016 fiscal year.

The State match is paid from the 21<sup>st</sup> Century Fund primarily with additional amounts provided from nonfederal administrative funds, as needed.

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;

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 DNREC. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds and account groups of the State that is attributable to the transactions of the Fund.

**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

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 unearned grant revenue. A right of set-off does not exist between the State and the EPA.

**E. Pooled Cash**

Pooled cash consists of the funds allocated share of cash, cash equivalents, and investments under control of the Treasurer of the State of Delaware (see Note 2).

**F. Reclassifications**

For comparative purposes, the prior year's financial statements have been reclassified to conform to report classifications of the current year. The reclassifications had no effect on net position.

**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.

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

**H. Adoption of GASB Statements**

The Fund adopted the provisions of Governmental Accounting Standards Board's Statement No. 72, *Fair Value Measurement and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. The adoption of these statements had no effect on previously reported amounts.

**I. Pending Changes in Accounting Principles**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Fund is required to adopt Statement No. 74 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Fund is required to adopt Statement No. 75 for its fiscal year 2018 financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Fund is required to adopt Statement No. 77 for its fiscal year 2017 financial statements.

In December 2015, the GASB issued a Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Fund is required to adopt statement No. 78 for its fiscal year 2017 financial statements.

In January 2016, the GASB issued a Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The Fund is required to adopt statement No. 80 for its fiscal year 2017 financial statements.

In March 2016, the GASB issued a Statement No. 81, *Irrevocable Split-Interest Agreements*. The Fund is required to adopt statement No. 81 for its fiscal year 2018 financial statements.

In March 2016, the GASB issued a Statement No. 82, *Pension issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The Fund is required to adopt statement No. 82 for its fiscal year 2017 financial statements.

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

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**Note 2 - Pooled Cash**

*Pooled Cash - State Treasurer's Pool*

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

*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, 2016 and 2015**

**Note 2 - Pooled Cash (Continued)**

*Pooled Cash - 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/>).

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

As of June 30, 2016 and 2015, \$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, 2016 and 2015**

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

As of June 30, 2016, the Fund had federal grants awarded in the amount of \$158,653,748, from which it had made disbursements of \$156,627,130. 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>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2011	\$ 76,424,992	\$ 76,424,992	\$ -
2012	6,517,469	6,517,469	-
2013	5,810,490	5,810,490	-
2014	6,103,050	6,103,050	-
2015	6,063,060	5,467,697	595,333
ARRA	<u>18,778,138</u>	<u>18,778,138</u>	<u>-</u>
Total	<u>\$119,697,169</u>	<u>\$119,101,836</u>	<u>\$595,333</u>

**Set-Aside Sub-Funds**

*2% Technical Assistance*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2011	\$ 1,846,464	\$ 1,846,464	\$ -
2012	179,500	179,500	-
2013	168,420	168,420	-
2014	176,900	176,900	-
2015	<u>175,740</u>	<u>95,782</u>	<u>79,958</u>
Total	<u>\$ 2,547,024</u>	<u>\$ 2,467,066</u>	<u>\$ 79,958</u>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

**Set-Aside Sub-Funds (Continued)**

*4% Administration*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2011	\$ 4,238,559	\$ 4,238,559	\$ -
2012	344,822	344,822	-
2013	336,840	336,840	-
2014	353,800	353,800	-
2015	351,480	220,777	130,703
ARRA	721,862	721,862	-
<b>Total</b>	<b><u>\$ 6,347,363</u></b>	<b><u>\$ 6,216,660</u></b>	<b><u>\$ 130,703</u></b>

*10% Program Management*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2011	\$10,549,559	\$10,549,559	\$ -
2012	826,353	826,353	-
2013	842,100	842,100	-
2014	884,500	817,976	66,524
2015	878,700	403,145	475,555
<b>Total</b>	<b><u>\$13,981,212</u></b>	<b><u>\$13,439,133</u></b>	<b><u>\$542,079</u></b>

*15% Local Assistance*

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2011	\$ 11,066,174	\$ 11,066,174	\$ -
2012	1,106,856	1,106,856	-
2013	1,263,150	1,263,150	-
2014	1,326,750	1,323,687	3,063
2015	1,318,050	642,568	675,482
<b>Total</b>	<b><u>\$16,080,980</u></b>	<b><u>\$15,402,435</u></b>	<b><u>\$ 678,545</u></b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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>
1997-2011	\$104,125,748	\$ 104,125,748	\$ -
2012	8,975,000	8,975,000	-
2013	8,421,000	8,421,000	-
2014	8,845,000	8,775,413	69,587
2015	8,787,000	6,829,969	1,957,031
ARRA	<u>19,500,000</u>	<u>19,500,000</u>	<u>-</u>
Total	<u>\$158,653,748</u>	<u>\$156,627,130</u>	<u>\$2,026,618</u>

**Note 5 - Federal Grants Receivable**

Grants receivable of \$77,961 and \$612,432, as of June 30, 2016 and 2015, 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. During 2016 and 2015, no additional funds were deobligated.

**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. No transfers were made to the Fund in 2016 or 2015.

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**Note 8 - Loans Receivable**

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

	<u>Binding</u> <u>Commitments</u>	<u>Loans Receivable</u>	
		<u>2016</u>	<u>2015</u>
<b>Municipal</b>			
City of Harrington	\$ 560,446	\$ 528,121	\$ -
Town of Frankford	275,000	478,445	546,883
Town of Bethany Beach	2,600,000	2,048,198	2,292,685
Town of Blades	890,300	482,488	506,483
Town of Milton	643,370	303,160	341,289
City of Wilmington	78,055,000	61,618,221	57,654,892
Town of Greenwood	1,692,730	1,070,757	1,116,735
Town of Dagsboro	1,400,000	888,692	942,048
Town of Millsboro	5,139,700	2,678,358	2,830,663
Town of Laurel	6,487,740	3,911,257	3,950,941
Town of Smyrna	8,972,775	3,965,464	3,807,419
City of Lewes	2,716,000	747,268	827,584
Town of Clayton	850,000	583,566	622,286
Town of Bridgeville	1,444,300	1,108,106	948,090
City of Rehoboth Beach	5,000,000	3,398,719	3,646,707
City of Seaford	2,729,408	1,071,117	1,125,806
City of Dover	2,404,017	1,936,700	2,045,311
Town of Delmar	1,392,896	900,218	898,456
Town of Middletown	3,011,000	1,501,140	1,548,711
City of Milford	4,045,000	2,060,906	798,970
Town of Selbyville	3,926,300	656,486	11,006
Town of Georgetown	7,651,600	905,673	2,345,776
City of Delaware City	297,300	175,054	187,827
Total Municipal	<u>142,184,882</u>	<u>93,018,114</u>	<u>88,996,568</u>
<b>Investor-Owned</b>			
Artesian Water Company	20,187,644	8,451,068	9,070,551
Tidewater Utilities, Inc.	14,114,493	8,850,743	8,297,567
J.H. Wilkerson & Son, Inc.	410,800	285,397	313,341
Southern Shores Water Co, LLC	1,610,000	1,185,500	1,246,072
Total Investor-Owned	<u>36,322,937</u>	<u>18,772,708</u>	<u>18,927,531</u>
<b>Mobile Home Park</b>			
Innovative Construction	\$ 34,321	\$ 10,700	\$ 12,704
	<u>\$178,542,140</u>	111,801,522	107,936,803
Less: loans receivable -			
Current portion		<u>6,266,905</u>	<u>5,844,150</u>
Loans Receivable - Net of			
Current Portion		<u>\$ 105,534,617</u>	<u>\$ 102,092,653</u>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$2,877,314 and \$2,913,162 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015. As of June 30, 2016 and 2015, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2016 and 2015. There has been no history of significant bad debts or uncollectible accounts.

**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, 2015, the Fund had disbursed all State match funding as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed</u>	<u>Remaining Balance</u>
1997-2011*	\$ 19,417,812	\$ 19,417,812	\$ -
2012	1,795,000	1,795,000	-
2013	1,684,200	1,684,200	-
2014	1,769,000	1,769,000	-
2015	<u>1,757,400</u>	<u>1,584,666</u>	<u>172,734</u>
Total	<u>\$26,423,412</u>	<u>\$26,250,678</u>	<u>\$ 172,734</u>

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

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

Interest earned on cash deposits totaled \$277,585 and \$136,271 for the years ended June 30, 2016 and 2015, respectively.

**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 \$217,232 for 2016 and \$207,773 for 2015 is included in salaries and related benefits. As of June 30, 2016, the Fund was not allocated any portion of the overall State of Delaware net pension liability.

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

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

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.

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 66.7% with 2% reduction of benefit or 100% with a 6% reduction of benefit). If the employee is active with at least five (5) years of credited service, the eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions

Employer - Determined by Board of Pension Trustees.

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 State does not maintain the plan information by agency and, therefore, the Fund's portion of the plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily available.

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.

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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, 2016, there were cumulative binding commitments of \$178,542,140.

**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, 2016, there were no outstanding or pending claims against the Fund.

---

**State of Delaware Drinking Water Revolving Loan Fund**  
**Notes to Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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.

---

**Supplemental Information**

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Fund Net Position by Fund**  
**For The Year Ended June 30, 2016**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Assets</b>						
<b>Current Assets</b>						
Pooled cash	\$ 43,550,891	\$ 19,065	\$ 2,633	\$ 7,847	\$ 11,829	\$ 43,592,265
Loans receivable	6,266,905	-	-	-	-	6,266,905
Interest receivable	700,252	-	-	-	-	700,252
Federal grants receivable	-	-	7,023	29,097	41,841	77,961
<b>Total Current Assets</b>	<b>50,518,048</b>	<b>19,065</b>	<b>9,656</b>	<b>36,944</b>	<b>53,670</b>	<b>50,637,383</b>
<b>Noncurrent Assets</b>						
Loans receivable	105,534,617	-	-	-	-	105,534,617
<b>Total Noncurrent Assets</b>	<b>105,534,617</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105,534,617</b>
<b>Total Assets</b>	<b>\$ 156,052,665</b>	<b>\$ 19,065</b>	<b>\$ 9,656</b>	<b>\$ 36,944</b>	<b>\$ 53,670</b>	<b>\$ 156,172,000</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Vouchers payable	1,756,974	19,065	9,656	36,944	53,670	1,876,309
<b>Total Current Liabilities</b>	<b>1,756,974</b>	<b>19,065</b>	<b>9,656</b>	<b>36,944</b>	<b>53,670</b>	<b>1,876,309</b>
<b>Long-Term Liabilities</b>						
Unearned revenue - state match	172,734	-	-	-	-	172,734
<b>Total Liabilities</b>	<b>1,929,708</b>	<b>19,065</b>	<b>9,656</b>	<b>36,944</b>	<b>53,670</b>	<b>2,049,043</b>
<b>Net Position</b>						
Net position - restricted	154,122,957	-	-	-	-	154,122,957
<b>Total Liabilities and Net Position</b>	<b>\$ 156,052,665</b>	<b>\$ 19,065</b>	<b>\$ 9,656</b>	<b>\$ 36,944</b>	<b>\$ 53,670</b>	<b>\$ 156,172,000</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Fund Net Position by Fund**  
**For the Year Ended June 30, 2015**

	<u>Loan Fund</u>	<u>2% Technical Assistance</u>	<u>4% Administration</u>	<u>10% Program Management</u>	<u>15% Local Assistance</u>	<u>Total</u>
<b>Assets</b>						
<b>Current Assets</b>						
Pooled cash	\$ 37,728,995	\$ -	\$ -	\$ -	\$ -	\$ 37,728,995
Loans receivable	5,844,150	-	-	-	-	5,844,150
Interest receivable	679,069	-	-	-	-	679,069
Federal grants receivable	402,958	15,181	26,568	64,430	103,295	612,432
<b>Total Current Assets</b>	<b>44,655,172</b>	<b>15,181</b>	<b>26,568</b>	<b>64,430</b>	<b>103,295</b>	<b>44,864,646</b>
<b>Noncurrent Assets</b>						
Loans receivable	102,092,653	-	-	-	-	102,092,653
<b>Total Noncurrent Assets</b>	<b>102,092,653</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>102,092,653</b>
<b>Total Assets</b>	<b>\$ 146,747,825</b>	<b>\$ 15,181</b>	<b>\$ 26,568</b>	<b>\$ 64,430</b>	<b>\$ 103,295</b>	<b>\$ 146,957,299</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Vouchers Payable	\$ 519,939	\$ 15,181	\$ 26,568	\$ 64,430	\$ 103,295	\$ 729,413
<b>Total Current Liabilities</b>	<b>519,939</b>	<b>15,181</b>	<b>26,568</b>	<b>64,430</b>	<b>103,295</b>	<b>729,413</b>
<b>Long-Term Liabilities</b>						
Unearned revenue - state match	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>519,939</b>	<b>15,181</b>	<b>26,568</b>	<b>64,430</b>	<b>103,295</b>	<b>729,413</b>
<b>Net Position</b>						
Net position - restricted	146,227,886	-	-	-	-	146,227,886
<b>Total Liabilities and Net Position</b>	<b>\$ 146,747,825</b>	<b>\$ 15,181</b>	<b>\$ 26,568</b>	<b>\$ 64,430</b>	<b>\$ 103,295</b>	<b>\$ 146,957,299</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Activities by Fund**  
**For the Year Ended June 30, 2016**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Operating Revenues</b>						
Interest income - loans	\$ 1,422,885	\$ -	\$ -	\$ -	\$ -	\$ 1,422,885
Interest income - administrative fees	1,454,429	-	-	-	-	1,454,429
Loan origination fees	2,375	-	-	-	-	2,375
Grant revenue	5,402,858	193,443	430,601	901,056	1,248,552	8,176,510
Principal forgiveness	(1,841,848)	-	-	-	-	(1,841,848)
State match	1,584,666	-	-	-	-	1,584,666
<b>Total Operating Revenues</b>	<b>8,025,365</b>	<b>193,443</b>	<b>430,601</b>	<b>901,056</b>	<b>1,248,552</b>	<b>10,799,017</b>
<b>Operating Expenses</b>						
Salaries and related benefits	-	-	277,846	555,244	777,496	1,610,586
Contract services	211,569	174,378	110,088	201,688	268,733	966,456
Grants	195,919	-	-	-	-	195,919
Indirect costs	140	19,065	36,012	111,253	160,615	327,085
Supplies	251	-	5,603	25,244	38,109	69,207
Training	-	-	253	188	60	501
Travel	-	-	799	7,439	3,539	11,777
<b>Total Operating Expenses</b>	<b>407,879</b>	<b>193,443</b>	<b>430,601</b>	<b>901,056</b>	<b>1,248,552</b>	<b>3,181,531</b>
<b>Operating Income</b>	<b>7,617,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,617,486</b>
<b>Nonoperating Revenues</b>						
Interest income - cash accounts	277,585	-	-	-	-	277,585
<b>Total Nonoperating Revenues</b>	<b>277,585</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>277,585</b>
<b>Increase in Net Position</b>	<b>7,895,071</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,895,071</b>
<b>Net Position - Beginning of Year</b>	<b>146,227,886</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>146,227,886</b>
<b>Net Position - End of Year</b>	<b>\$ 154,122,957</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 154,122,957</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedule of Activities by Fund**  
**For the Year Ended June 30, 2015**

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>Operating Revenues</b>						
Interest income - loans	\$ 1,456,581	\$ -	\$ -	\$ -	\$ -	\$ 1,456,581
Interest income - administrative fees	1,456,581	-	-	-	-	1,456,581
Loan origination fees	45,375	-	-	-	-	45,375
Grant revenue	7,509,778	203,190	363,913	897,833	1,489,272	10,463,986
Principal forgiveness	(4,960,872)	-	-	-	-	(4,960,872)
State match	2,107,741	-	-	-	-	2,107,741
<b>Total Operating Revenues</b>	<b>7,615,184</b>	<b>203,190</b>	<b>363,913</b>	<b>897,833</b>	<b>1,489,272</b>	<b>10,569,392</b>
<b>Operating Expenses</b>						
Salaries and related benefits	-	-	217,862	498,216	820,335	1,536,413
Contract services	101,206	150,534	93,365	181,242	355,360	881,707
Indirect costs	13,066	-	-	-	-	13,066
Subgrants	-	-	51,121	151,258	247,592	449,971
Supplies	-	-	174	49,520	54,769	104,463
Training	-	52,656	780	8,660	6,467	68,563
Travel	-	-	611	8,937	4,749	14,297
<b>Total Operating Expenses</b>	<b>114,272</b>	<b>203,190</b>	<b>363,913</b>	<b>897,833</b>	<b>1,489,272</b>	<b>3,068,480</b>
<b>Operating Income</b>	<b>7,500,912</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,500,912</b>
<b>Nonoperating Revenues</b>						
Interest Income - Cash	136,271	-	-	-	-	136,271
<b>Total Nonoperating Revenues</b>	<b>136,271</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>136,271</b>
<b>Increase in Net Position</b>	<b>7,637,183</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,637,183</b>
<b>Net Position - Beginning of Year</b>	<b>138,590,703</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>138,590,703</b>
<b>Net Position - End of Year</b>	<b>\$ 146,227,886</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 146,227,886</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedules of Fund Net Position by Classification**  
**June 30, 2016 and 2015**

	2016				2015			
	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>								
Pooled cash	\$ 41,374	\$ 32,647,387	\$ 10,903,504	\$ 43,592,265	\$ -	\$ 27,940,103	\$ 9,788,892	\$ 37,728,995
Loans receivable - current portion	-	6,266,905	-	6,266,905	-	5,844,150	-	5,844,150
Interest receivable	-	350,582	349,670	700,252	-	340,382	338,687	679,069
Due to/(from)	-	672,175	(672,175)	-	-	672,175	(672,175)	-
Federal grants receivable	77,961	-	-	77,961	209,474	402,958	-	612,432
<b>Total Current Assets</b>	<b>119,335</b>	<b>39,937,049</b>	<b>10,580,999</b>	<b>50,637,383</b>	<b>209,474</b>	<b>35,199,768</b>	<b>9,455,404</b>	<b>44,864,646</b>
<b>Noncurrent Assets</b>								
Loans receivable - net of current portion	-	105,534,617	-	105,534,617	-	102,092,653	-	102,092,653
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>105,534,617</b>	<b>-</b>	<b>105,534,617</b>	<b>-</b>	<b>102,092,653</b>	<b>-</b>	<b>102,092,653</b>
<b>Total Assets</b>	<b>\$ 119,335</b>	<b>\$ 145,471,666</b>	<b>\$ 10,580,999</b>	<b>\$ 156,172,000</b>	<b>\$ 209,474</b>	<b>\$ 137,292,421</b>	<b>\$ 9,455,404</b>	<b>\$ 146,957,299</b>
<b>Liabilities</b>								
<b>Current Liabilities</b>								
Vouchers payable	\$ 119,335	\$ 1,756,974	\$ -	\$ 1,876,309	\$ 209,474	\$ 519,939	\$ -	\$ 729,413
<b>Total Current Liabilities</b>	<b>119,335</b>	<b>1,756,974</b>	<b>-</b>	<b>1,876,309</b>	<b>209,474</b>	<b>519,939</b>	<b>-</b>	<b>729,413</b>
<b>Long-Term Liabilities</b>								
Unearned revenue - state match	-	172,734	-	172,734	-	-	-	-
<b>Total Liabilities</b>	<b>119,335</b>	<b>1,929,708</b>	<b>-</b>	<b>2,049,043</b>	<b>209,474</b>	<b>519,939</b>	<b>-</b>	<b>729,413</b>
<b>Net Position</b>								
Net position - restricted	-	143,541,958	10,580,999	154,122,957	-	136,772,482	9,455,404	146,227,886
<b>Total Liabilities and Net Position</b>	<b>\$ 119,335</b>	<b>\$ 145,471,666</b>	<b>\$ 10,580,999</b>	<b>\$ 156,172,000</b>	<b>\$ 209,474</b>	<b>\$ 137,292,421</b>	<b>\$ 9,455,404</b>	<b>\$ 146,957,299</b>

**State of Delaware Drinking Water Revolving Loan Fund**  
**Schedules of Activities by Classification**  
**June 30, 2016 and 2015**

	2016				2015			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
<b>Operating Revenues</b>								
Interest income - loans	\$ -	\$ 1,422,885	\$ -	\$ 1,422,885	\$ -	\$ 1,456,581	\$ -	\$ 1,456,581
Interest income - administrative fees	-	-	1,454,429	1,454,429	-	-	1,456,581	1,456,581
Loan origination fees	-	-	2,375	2,375	-	-	45,375	45,375
Grant revenue	2,773,652	5,402,858	-	8,176,510	2,954,208	7,509,778	-	10,463,986
Principal forgiveness	-	(1,841,848)	-	(1,841,848)	-	(4,960,872)	-	(4,960,872)
State match	-	1,584,666	-	1,584,666	-	2,176,741	(69,000)	2,107,741
<b>Total Operating Revenues</b>	<b>2,773,652</b>	<b>6,568,561</b>	<b>1,456,804</b>	<b>10,799,017</b>	<b>2,954,208</b>	<b>6,182,228</b>	<b>1,432,956</b>	<b>10,569,392</b>
<b>Operating Expenses</b>								
Salaries and related benefits	1,610,586	-	-	1,610,586	1,536,413	-	-	1,536,413
Contract services	754,887	-	211,569	966,456	780,501	-	101,206	881,707
Grants	-	-	195,919	195,919	-	-	13,066	13,066
Indirect costs	326,945	140	-	327,085	449,971	-	-	449,971
Supplies	68,956	-	251	69,207	104,463	-	-	104,463
Training	501	-	-	501	68,563	-	-	68,563
Travel	11,777	-	-	11,777	14,297	-	-	14,297
<b>Total Operating Expenses</b>	<b>2,773,652</b>	<b>140</b>	<b>407,739</b>	<b>3,181,531</b>	<b>2,954,208</b>	<b>-</b>	<b>114,272</b>	<b>3,068,480</b>
<b>Operating Income (Loss)</b>	<b>-</b>	<b>6,568,421</b>	<b>1,049,065</b>	<b>7,617,486</b>	<b>-</b>	<b>6,182,228</b>	<b>1,318,684</b>	<b>7,500,912</b>
<b>Nonoperating Revenues</b>								
Interest income - cash accounts	-	201,055	76,530	277,585	-	101,243	35,028	136,271
<b>Total Nonoperating Revenues</b>	<b>-</b>	<b>201,055</b>	<b>76,530</b>	<b>277,585</b>	<b>-</b>	<b>101,243</b>	<b>35,028</b>	<b>136,271</b>
<b>Change in Net Position</b>	<b>-</b>	<b>6,769,476</b>	<b>1,125,595</b>	<b>7,895,071</b>	<b>-</b>	<b>6,283,471</b>	<b>1,353,712</b>	<b>7,637,183</b>
<b>Net Position - Beginning of Year</b>	<b>-</b>	<b>136,772,482</b>	<b>9,455,404</b>	<b>146,227,886</b>	<b>-</b>	<b>130,489,011</b>	<b>8,101,692</b>	<b>138,590,703</b>
<b>Net Position - End of Year</b>	<b>\$ -</b>	<b>\$ 143,541,958</b>	<b>\$ 10,580,999</b>	<b>\$ 154,122,957</b>	<b>\$ -</b>	<b>\$ 136,772,482</b>	<b>\$ 9,455,404</b>	<b>\$ 146,227,886</b>

# 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 Delaware Drinking Water Revolving Loan Fund, of the State of Delaware as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Delaware Drinking Water Revolving Loan Fund's basic financial statements, and have issued our report thereon dated January 3, 2017.

## **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

---

### **Harrisburg**

830 Sir Thomas Court, Suite 100  
Harrisburg, PA 17109  
717.561.9200 Fax 717.561.9202

### **Philadelphia**

2370 York Road, Suite A-5  
Jamison, Pa 18929  
215.918.2277 Fax 215.918.2302

### **Pittsburgh**

3800 McKnight E. Drive, Suite 3805  
Pittsburgh, PA 15237  
412.367.7102 Fax 412.367.7103

### **Greensburg**

210 Tollgate Hill Road  
Greensburg, PA 15601  
724.834.2151 Fax 724.834.5969

# *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.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
January 3, 2017