

**State of Delaware Drinking Water Revolving Loan Fund
Financial Statements
June 30, 2017 and 2016**

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Independent Auditors' Report

To the Management
State of Delaware Drinking Water Revolving Loan Fund

We have audited the accompanying financial statements of State of Delaware Drinking Water Revolving Loan Fund, (the Fund) as of and for the year ended June 30, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* as issued by the Comptroller General. 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 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.

To the Management
State of Delaware Drinking Water Revolving Loan Fund

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State of Delaware Drinking Water Revolving Loan Fund as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, 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, 2017, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adjustments to Prior Period Financial Statements

The financial statements of State of Delaware Drinking Water Revolving Loan Fund as of June 30, 2016, were audited by other auditors whose report dated January 3, 2017, expressed an unmodified opinion on those statements. The other auditors' report included an emphasis of matter paragraph stating the June 30, 2016 financial statements did not purport to, and did not present fairly the financial position of the State of Delaware as of June 30, 2016, the changes and its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As part of our audit of the June 30, 2017 financial statements, we also audited adjustments to correct material misstatements described in Note 15 that were applied to restate the June 30, 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2016 financial statements of the State of Delaware Drinking Water Revolving Loan Fund other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2016 financial statements as a whole.

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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

To the Management
State of Delaware Drinking Water Revolving Loan Fund

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 State of Delaware Drinking Water Revolving Loan Fund's basic financial statements. The schedule of fund net position by fund, schedule of activities by fund, schedule of fund net position by classification, and schedule of activities by classification as of and for the year ended June 30, 2017, together referred to as supplemental information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of fund net position by fund, schedule of activities by fund, schedule of fund net position by classification, and schedule of activities by classification as of and for the year ended June 30, 2016 as listed in the table of contents were subjected to the auditing procedures applied in the June 30, 2016 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly presented in all material respects in relation to the June 30, 2016 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2018, 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 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 State of Delaware Drinking Water Revolving Loan Fund's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

May 14, 2018
Wilmington, DE

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2017 and 2016**

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, 2017 and 2016 (fiscal year 2017 and 2016, respectively). 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 jointly administered by the Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS). 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 federal 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 State that is 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 \$5,327 in fiscal year 2017, which represents an increase of 4%. The change in net position in 2017 of \$5,327 was decreased from 2016's increase of \$7,895 due to increased loan forgiveness and decreased grant revenue. The Fund realized a change in net position of \$7,895 in fiscal year 2016, which represents an increase of 5%. The increase in net position in 2016 was higher due to increased grant activity.

Grant revenue recognized from the federal and state governments totaled \$7,625 in fiscal year 2017, a 22% decrease from fiscal year 2016, due to decreased State match revenues and a decrease in federal grants. Grant revenue recognized from the federal and state governments totaled \$9,762 in fiscal year 2016, a 22% decrease from fiscal year 2015, due to decreased Federal and State grant revenues.

Loans made totaled \$10,196 during fiscal year 2017, which represents a decrease of \$380 from the previous year. This decrease of 4% was caused by decreased draws on existing loans from municipalities and others through the State. Loans made during 2016 totaled \$10,576, which represents a decrease of \$298 from the previous year. This increase of 3% was caused by decreased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$7,253 during fiscal year 2017. This represents an overall increase of \$1,147, 19%, from 2016 due to increased borrowings and principal payments by loan recipients. Loan collections (principal) totaled \$6,106 during 2016. This represents an overall increase of \$635, 12%, from the prior year.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2017 and 2016 increased by \$5,327 and \$7,895, 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, 2017, 2016 and 2015.

During fiscal year 2017, pooled cash increased by approximately \$4,583, 11% to \$48,175 based on a decrease in loans made and an increase in collections. Loans receivable decreased, by \$1,140, 1%, to \$110,662, mostly as a result of decreased loans made. Federal grants receivable remained the same due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2017.

During fiscal year 2016, pooled cash increased by approximately \$5,863, 15.5%, to \$43,592 based on a decrease in loans made during the year. Loans receivable increased, by \$3,864, 3.6%, to \$111,801, mostly as a result of increased draws in existing loans from municipalities. Federal grants receivable decreased by approximately \$535, 87.3%, mostly due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2016.

Vouchers payable in 2017 decreased by \$1,746 or 93% from the prior year as a result of timing of disbursements at year end for 2017. Vouchers payable in 2016 increased by \$1,147, or 157% for the same reason.

Unearned revenue from the State match decreased by \$173, 100%, as the Fund used 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,		
	2017	2016	2015
Current Assets			
Pooled cash and investments	\$ 48,175	\$ 43,592	\$ 37,729
Loans, current portion	6,530	6,267	5,844
Loan interest	665	700	679
Federal grants receivable	78	78	612
Total Current Assets	<u>55,448</u>	<u>50,637</u>	<u>44,864</u>
Noncurrent Assets			
Loans, net of current portion	<u>104,132</u>	<u>105,535</u>	<u>102,092</u>
Total Noncurrent Assets	<u>104,132</u>	<u>105,535</u>	<u>102,092</u>
 Total Assets	 <u>\$ 159,580</u>	 <u>\$ 156,172</u>	 <u>\$ 146,956</u>
Current Liabilities			
Vouchers payable	\$ 130	\$ 1,876	\$ 728
Noncurrent Liabilities			
Unearned revenue - state match	<u>-</u>	<u>173</u>	<u>-</u>
Total Liabilities	130	2,049	728
 Net Position - Unrestricted	 <u>159,450</u>	 <u>154,123</u>	 <u>146,228</u>
Total Liabilities and Net Position	<u>\$ 159,580</u>	<u>\$ 156,172</u>	<u>\$ 146,956</u>

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, 2017, 2016, and 2015 (Table 2).

Federal grant revenue decreased by \$725, 9%, and the State match revenue decreased by \$1,412, 89%, during fiscal year 2017 as a lower volume of loans were due to an overall decrease in grants compared to the prior years. Federal grant revenue decreased by \$2,288, 22%, and the State match revenue increased by \$523, 25%, during fiscal year 2016 due to an overall decrease in grants compared to the prior years.

Interest income from cash deposits increased by \$159, 57% during fiscal year 2017, \$141, 104%, during fiscal year 2016, due mainly to increases in cash and investments and fluctuations in interest rates utilized by the Treasurer of the State of Delaware.

In 2017, operating expenses increased by approximately \$23, 1%, due to increases in contract services, grants and supplies exceeding the decreases in personnel costs (salaries and related benefits) and indirect costs.

In 2016, operating expenses increased by approximately \$113, 3.7%, due mainly to personnel costs (salaries and related benefits) and grant expenses.

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

	June 30,		
	2017	2016	2015
Operating Revenue			
Interest income - loans and administrative fees	\$ 2,794	\$ 2,877	\$ 2,913
Loan origination fees	1	2	45
Total Operating Revenue	<u>2,795</u>	<u>2,879</u>	<u>2,958</u>
Operating Expenses			
Salaries and related benefits	1,562	1,611	1,536
Contract services	1,017	966	882
Grants	274	196	13
Indirect costs	246	327	450
Supplies	94	69	105
Training	2	1	68
Travel	10	12	14
Total Operating Expenses	<u>3,205</u>	<u>3,182</u>	<u>3,068</u>
Operating Income	<u>(410)</u>	<u>(303)</u>	<u>(110)</u>
Nonoperating Revenues and expenses			
Interest income - cash deposits	437	278	136
Grant revenue	7,452	8,177	10,464
State match	173	1,585	2,108
Principal forgiveness	(2,325)	(1,842)	(4,961)
Total Nonoperating Revenues and expenses	<u>5,737</u>	<u>8,198</u>	<u>7,747</u>
Change in Net Position	5,327	7,895	7,637
Net Position - Beginning of Year	<u>154,123</u>	<u>146,228</u>	<u>138,591</u>
Net Position - Ending of Year	<u>\$ 159,450</u>	<u>\$ 154,123</u>	<u>\$ 146,228</u>

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:

Carla Cassell-Carter
State of Delaware
Department of Natural Resources & Environmental Control
Division of Water Resources
97 Commerce Way, Suite 106
Dover, DE 19904

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Pooled cash and investments	\$ 48,175,318	\$ 43,592,265
Loans receivable	6,529,521	6,266,905
Interest receivable	664,888	700,252
Federal grants receivable	77,690	77,961
Total Current Assets	55,447,417	50,637,383
Noncurrent Assets		
Loans receivable	104,132,664	105,534,617
Total Noncurrent Assets	104,132,664	105,534,617
Total Assets	\$ 159,580,081	\$ 156,172,000
Liabilities		
Current Liabilities		
Vouchers payable	\$ 129,847	\$ 1,876,309
Total Current Liabilities	129,847	1,876,309
Noncurrent Liabilities		
Unearned revenue - state match	-	172,734
Total Liabilities	129,847	2,049,043
Net Position		
Net Position - Unrestricted	159,450,234	154,122,957
Total Liabilities and Net Position	\$ 159,580,081	\$ 156,172,000

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Interest income - loans	\$ 1,414,160	\$ 1,422,885
Interest income - administrative fees	1,380,279	1,454,429
Loan origination fees	1,118	2,375
Total Operating Revenues	2,795,557	2,879,689
Operating Expenses		
Salaries and related benefits	1,561,889	1,610,586
Contract services	1,016,745	966,456
Grants	274,258	195,919
Indirect costs	245,847	327,085
Supplies	94,480	69,207
Training	1,796	501
Travel	10,320	11,777
Total Operating Expenses	3,205,335	3,181,531
Operating Loss	(409,778)	(301,842)
Nonoperating Revenues		
Interest income - cash accounts	437,356	277,585
Grant revenue	7,452,147	8,176,510
Principal forgiveness	(2,325,182)	(1,841,848)
State match	172,734	1,584,666
Total Nonoperating Revenues	5,737,055	8,196,913
Change in Net Position	5,327,277	7,895,071
Net Position - Beginning of Year	154,122,957	146,227,886
Net Position - End of Year	\$ 159,450,234	\$ 154,122,957

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Loan repayments	\$ 7,253,135	\$ 6,105,928
Interest income - loans	1,416,310	1,425,035
Interest income - administrative fees	1,384,124	1,458,274
Loan origination fees	1,118	2,375
Loan disbursements	(10,195,954)	(10,575,461)
Salaries and related benefits paid	(1,561,889)	(1,610,586)
General expenses paid	(1,603,565)	(1,688,261)
Net cash used in operating activities	(3,306,721)	(4,882,696)
Cash flows from noncapital financing activities		
Grants received from EPA	7,452,418	8,710,981
Grants received from the State of Delaware	-	1,757,400
Net cash provided by noncapital financing activities	7,452,418	10,468,381
Cash flows from investing activities		
Interest received from cash deposits	437,356	277,585
Net cash provided by investing activities	437,356	277,585
Net increase in cash and cash equivalents	4,583,053	5,863,270
Cash and cash equivalents - beginning of year	43,592,265	37,728,995
Cash and cash equivalents - end of year	\$ 48,175,318	\$ 43,592,265
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (409,778)	\$ (301,842)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	(1,185,845)	(5,706,567)
(Increase) decrease in interest and dividends receivable	35,364	(21,183)
Increase (decrease) in vouchers payable	(1,746,462)	1,146,896
Net cash used in operating activities	\$ (3,306,721)	\$ (4,882,696)

See accompanying notes to financial statements.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

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 jointly administered by the State of Delaware Department of Health and Social Services (DHSS), and the State of Delaware Department of Natural Resources and Environmental Control (DNREC). 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 Safe Drinking Water Act (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 Year	Total Available Funding	Federal Portion	State Portion
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2012 *	135,720,898	113,100,748	22,620,150
2013	10,105,200	8,421,000	1,684,200
2014	10,614,000	8,845,000	1,769,000
2015	10,544,400	8,787,000	1,757,400
2016	9,974,400	8,312,000	1,662,400
Total	<u>\$196,458,898</u>	<u>\$166,965,748</u>	<u>\$29,493,150</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, 2017 and 2016

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 2016 corresponds to the Fund's 2017 fiscal year.

The State match is paid from the 21st 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 five 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 System Supervision Program (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, 2017 and 2016

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 loan administration fees. Non-operating revenues and expenses consist of federal and state grants and those revenues and expenses that are

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

related to financing and 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.

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. 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.

G. Adoption of GASB Statements

During the year ended June 30, 2016, 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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 certificates of deposit and time deposits 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, 2017 and 2016

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, 2017 and 2016, \$672,175 was owed to the Capital Reserve Fund by the Nonfederal Administrative Fund to satisfy the required match amount on grant expenditures.

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

As of June 30, 2017, the Fund had federal grants awarded in the amount of \$166,965,748, from which it had made disbursements of \$163,946,319. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2016 fiscal year, see Note 6. The breakdown for all grants is as follows:

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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

Loan Fund

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
ARRA	\$ 18,778,138	\$ 18,778,138	\$ -
1997-2012	82,942,461	82,942,461	-
2013	5,810,490	5,810,490	-
2014	6,103,050	6,103,050	-
2015	6,063,030	6,063,030	-
2016	5,735,280	4,256,675	1,478,605
Total	<u>\$125,432,449</u>	<u>\$123,953,844</u>	<u>\$ 1,478,605</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>
1997-2012	\$ 2,025,964	\$ 2,025,964	\$ -
2013	168,420	168,420	-
2014	176,900	176,900	-
2015	175,740	175,740	-
2016	166,240	68,649	97,591
Total	<u>\$ 2,713,264</u>	<u>\$ 2,615,673</u>	<u>\$ 97,591</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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

Set-Aside Sub-Funds (Continued)

4% Administration

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 721,862	\$ 721,862	\$ -
1997-2012	4,583,381	4,583,381	-
2013	336,840	336,840	-
2014	353,800	353,800	-
2015	351,480	341,832	9,648
2016	<u>332,480</u>	<u>88,370</u>	<u>244,110</u>
Total	<u>\$ 6,679,843</u>	<u>\$ 6,426,085</u>	<u>\$ 253,758</u>

10% Program Management

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2012	\$ 11,375,912	\$ 11,375,912	\$ -
2013	842,100	842,100	-
2014	884,500	884,500	-
2015	878,700	832,427	46,273
2016	<u>831,200</u>	<u>506,787</u>	<u>324,413</u>
Total	<u>\$ 14,812,412</u>	<u>\$ 14,441,726</u>	<u>\$ 370,686</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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

Set-Aside Sub-Funds (Continued)

15% Local Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2012	\$ 12,173,030	\$ 12,173,030	\$ -
2013	1,263,150	1,263,150	-
2014	1,326,750	1,326,750	-
2015	1,318,050	1,086,386	231,664
2016	<u>1,246,800</u>	<u>659,675</u>	<u>587,125</u>
Total	<u>\$ 17,327,780</u>	<u>\$ 16,508,991</u>	<u>\$ 818,789</u>

Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2012	113,100,748	113,100,748	-
2013	8,421,000	8,421,000	-
2014	8,845,000	8,845,000	-
2015	8,787,000	8,499,415	287,585
2016	<u>8,312,000</u>	<u>5,580,156</u>	<u>2,731,844</u>
Total	<u>\$166,965,748</u>	<u>\$163,946,319</u>	<u>\$ 3,019,429</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 5 - Federal Grants Receivable

Grants receivable of \$77,690 and \$77,961, as of June 30, 2017 and 2016, 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 2017 and 2016, 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 2017 or 2016.

Note 8 - Loans Receivable

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

Municipal	Loans Receivable	
	2017	2016
City of Harrington	\$ 519,945	\$ 528,121
Town of Frankford	449,164	478,445
Town of Bethany Beach	1,843,392	2,048,198
Town of Blades	472,825	482,488
Town of Milton	263,817	303,160
City of Wilmington	59,079,876	61,618,221
Town of Greenwood	1,024,054	1,070,757
Town of Dagsboro	834,266	888,692
Town of Millsboro	2,563,895	2,678,358
Town of Laurel	3,886,286	3,911,257
Town of Smyrna	3,791,659	3,965,464
City of Lewes	102,800	747,268

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

	Loans Receivable	
	2017	2016
Municipal		
Town of Clayton	\$ 543,786	\$ 583,566
Town of Bridgeville	1,055,717	1,108,106
City of Rehoboth Beach	3,143,839	3,398,719
City of Seaford	1,014,642	1,071,117
City of Dover	1,825,236	1,936,700
Town of Delmar	378,435	900,218
Town of Middletown	1,425,037	1,501,140
City of Milford	3,436,468	2,060,906
Town of Selbyville	2,378,327	656,486
Town of Georgetown	3,099,163	905,673
City of Delaware City	161,927	175,054
Total Municipal	93,294,556	93,018,114
Investor-Owned		
Artesian Water Company	7,692,169	8,451,068
Tidewater Utilities, Inc.	8,288,046	8,850,743
J.H. Wilkerson & Son, Inc.	256,352	285,397
Southern Shores Water Co, LLC	1,122,635	1,185,500
Total Investor-Owned	17,359,202	18,772,708
Mobile Home park		
Innovative Construction	8,427	10,700
Loans Receivable	110,662,185	111,801,522
Less: loans receivable - current portion	6,529,521	6,266,905
Loans Receivable - Net of Current Portion	\$ 104,132,664	\$ 105,534,617

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 8 - Loans Receivable (Continued)

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$2,794,439 and \$2,877,314 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016. As of June 30, 2017 and 2016, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2017 and 2016. There has been no history of significant bad debts or uncollectible accounts.

Note 9 - State Match

During 2013, \$5,410,035 were transferred from the Fund to WPCRLF, see Note 6. As of June 30, 2017, the Fund had disbursed all State match funding as follows:

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2012 *	\$ 21,212,812	\$ 21,212,812	\$ -
2013	1,684,200	1,684,200	-
2014	1,769,000	1,769,000	-
2015	1,757,400	1,757,400	-
2016	1,662,400	1,233,684	428,716
Total	<u>\$ 28,085,812</u>	<u>\$ 27,657,096</u>	<u>\$ 428,716</u>

*Amounts were adjusted to reflect deobligation of federal funding, see note F.

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 \$222,963 for 2017 and \$217,232 for 2016 is included in salaries and related benefits. As of June 30, 2017, the Fund was not allocated any portion of the overall State of Delaware net pension liability.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 10 - Pension (Continued)

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.

There are two tiers within this plan:

1. Employees hired prior to January 1, 2012 (Pre-2012)
2. Employees hired on or after January 1, 2012 (Post-2011)

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

Vesting:

Pre-2012 date of hire: 5 years of credited service.

Post-2011 date of hire: 10 years of credited service.

Retirement – For pre-2012 employees, age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

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

Disability Benefits – For pre-2012 employees, same as Service Benefits. Employee must have five (5) years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006. For post-2011 employees, in the Disability Insurance Program.

Survivor Benefits - If the employee is receiving a pension, the eligible survivor receives 50% (or 66.7% with a 2% reduction of benefit or 100% with a 6% reduction of benefit). If the employee is active with at least five (5) years of credited service, the eligible survivor receives 75% of the benefit the employee would have received at age 62.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 10 - Pension (Continued)

Contributions - Employer - determined by Board of Pension Trustees based on the actuarially determined rate. Employer contributions were 9.6% of earnings for fiscal year 2017.

Pre-2012 date of hire employee – 3% of earnings in excess of \$6,000.

Post-2011 date of hire employee – 5% of earnings in excess of \$6,000.

Death Benefit - \$7,000 per member.

The State does not maintain the plan information by agency and, therefore, the Fund's portion of the plan's net 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 or online at www.delawarepensions.com.

Note 11 - Other Post-Employment Benefits (OPEB)

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the State Employees' Pension Plan. The OPEB Trust is administered by the Delaware Public Employees' Retirement System (DPERS) Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust. Further information is available in the State's Comprehensive Annual Financial Report online at <https://auditor.delaware.gov/reports>.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees' Pension Plan.

Substantially all State employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

Early Retirement:

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 11 - Other Post-Employment Benefits (OPEB) (Continued)

Eligibility - Continued:

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

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

General Assembly:

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

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

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

Benefits:

During the fiscal year ended June 30, 2017, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions. Surviving spouses are eligible for coverage after the retiree's death.

Retiree Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service.

Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay in addition to their percentage above an additional 5% of the Medicare Supplement offered by the State.

Funding Policy

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined, typically from the General Fund. Additional funding has also been provided on an ad hoc basis.

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 12 - 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, 2017, there were \$13,116,740 in undisbursed loan proceeds for projects under construction. As of June 30, 2017, there were binding commitments of \$5,783,786.

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 13 - 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, 2017, there were no outstanding or pending claims against the Fund.

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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

Note 15 - Restatements

In prior years, Net Position was reported as Restricted, although the Fund's net position may only be used for the general purposes of the Fund (See Note 1). GASB standards define this as Unrestricted.

In prior years, federal grant revenues, state match grants and principal forgiveness expenses were classified as Operating Revenues. The financial statements have been restated to present these accounts as Nonoperating Revenues. This restatement has no effect on Net Position.

Supplemental Information

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Fund
Year Ended June 30, 2017

Assets	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Current Assets						
Pooled cash and investments	\$ 48,133,520	\$ 19,065	\$ 2,633	\$ 8,508	\$ 11,592	\$ 48,175,318
Loans receivable	6,529,521	-	-	-	-	6,529,521
Interest receivable	664,888	-	-	-	-	664,888
Federal grants receivable	-	-	7,224	27,982	42,484	77,690
Total Current Assets	55,327,929	19,065	9,857	36,490	54,076	55,447,417
Noncurrent Assets						
Loans receivable	104,132,664	-	-	-	-	104,132,664
Total Noncurrent Assets	104,132,664	-	-	-	-	104,132,664
Total Assets	\$ 159,460,593	\$ 19,065	\$ 9,857	\$ 36,490	\$ 54,076	\$ 159,580,081
Liabilities						
Current Liabilities						
Vouchers payable	\$ 7,791	\$ 19,065	\$ 9,857	\$ 35,829	\$ 57,305	\$ 129,847
Total Current Liabilities	7,791	19,065	9,857	35,829	57,305	129,847
Noncurrent Liabilities						
Unearned revenue - state match	-	-	-	-	-	-
Total Liabilities	7,791	19,065	9,857	35,829	57,305	129,847
Net Position						
Net Position - Unrestricted	159,452,802	-	-	661	(3,229)	159,450,234
Total Liabilities and Net Position	\$ 159,460,593	\$ 19,065	\$ 9,857	\$ 36,490	\$ 54,076	\$ 159,580,081

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

Assets	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Current Assets						
Pooled cash and investments	\$ 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
Total Current Assets	50,518,048	19,065	9,656	36,944	53,670	50,637,383
Noncurrent Assets						
Loans receivable	105,534,617	-	-	-	-	105,534,617
Total Noncurrent Assets	105,534,617	-	-	-	-	105,534,617
Total Assets	<u>\$ 156,052,665</u>	<u>\$ 19,065</u>	<u>\$ 9,656</u>	<u>\$ 36,944</u>	<u>\$ 53,670</u>	<u>\$ 156,172,000</u>
Liabilities						
Current Liabilities						
Vouchers payable	\$ 1,756,974	\$ 19,065	\$ 9,656	\$ 36,944	\$ 53,670	\$ 1,876,309
Total Current Liabilities	1,756,974	19,065	9,656	36,944	53,670	1,876,309
Noncurrent Liabilities						
Unearned revenue - state match	172,734	-	-	-	-	172,734
Total Liabilities	1,929,708	19,065	9,656	36,944	53,670	2,049,043
Net Position						
Net Position - Unrestricted	154,122,957	-	-	-	-	154,122,957
Total Liabilities and Net Position	<u>\$ 156,052,665</u>	<u>\$ 19,065</u>	<u>\$ 9,656</u>	<u>\$ 36,944</u>	<u>\$ 53,670</u>	<u>\$ 156,172,000</u>

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Fund
Year Ended June 30, 2017

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,414,160	-	-	-	-	\$ 1,414,160
Interest income - administrative fees	1,380,279	-	-	-	-	1,380,279
Loan origination fees	1,118	-	-	-	-	1,118
Total Operating Revenues	2,795,557	-	-	-	-	2,795,557
Operating Expenses						
Salaries and related benefits	59,297	-	192,990	572,099	737,503	1,561,889
Contract services	334,037	148,606	5,565	266,736	261,801	1,016,745
Grants	274,258	-	-	-	-	274,258
Indirect costs	-	-	15,409	105,949	124,489	245,847
Supplies	-	-	550	84,605	9,325	94,480
Training	-	-	-	1,796	-	1,796
Travel	14	-	3,146	928	6,232	10,320
Total Operating Expenses	667,606	148,606	217,660	1,032,113	1,139,350	3,205,335
Operating Income (Loss)	2,127,951	(148,606)	(217,660)	(1,032,113)	(1,139,350)	(409,778)
Nonoperating Revenues and Expenses						
Interest income - cash accounts	437,356	-	-	-	-	437,356
Grant revenue	4,916,986	148,606	217,660	1,032,774	1,136,121	7,452,147
Principal forgiveness	(2,325,182)	-	-	-	-	(2,325,182)
State match	172,734	-	-	-	-	172,734
Total Nonoperating Revenues	3,201,894	148,606	217,660	1,032,774	1,136,121	5,737,055
Increase (Decrease) in Net Position	5,329,845	-	-	661	(3,229)	5,327,277
Net Position - Beginning of Year	154,122,957	-	-	-	-	154,122,957
Net Position - End of Year	\$ 159,452,802	\$ -	\$ -	\$ 661	\$ (3,229)	\$ 159,450,234

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

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
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
Total Operating Revenues	2,879,689	-	-	-	-	2,879,689
Operating Expenses						
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
Total Operating Expenses	407,879	193,443	430,601	901,056	1,248,552	3,181,531
Operating Income (Loss)	2,471,810	(193,443)	(430,601)	(901,056)	(1,248,552)	(301,842)
Nonoperating Revenues and Expenses						
Interest income - cash accounts	277,585	-	-	-	-	277,585
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
Total Nonoperating Revenues	5,423,261	193,443	430,601	901,056	1,248,552	8,196,913
Increase in Net Position	7,895,071	-	-	-	-	7,895,071
Net Position - Beginning of Year	146,227,886	-	-	-	-	146,227,886
Net Position - End of Year	\$ 154,122,957	\$ -	\$ -	\$ -	\$ -	\$ 154,122,957

State of Delaware
Drinking Water Revolving Loan Fund
 Schedule of Fund Net Position by Classification
 June 30, 2017 and 2016

	2017				2016			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Assets								
Current Assets								
Pooled cash and investments	\$ 41,798	\$ 38,055,620	\$ 10,077,900	\$ 48,175,318	\$ 41,374	\$ 32,647,387	\$ 10,903,504	\$ 43,592,265
Loans receivable - current portion	-	6,529,521	-	6,529,521	-	6,266,905	-	6,266,905
Interest receivable	-	332,868	332,020	664,888	-	350,582	349,670	700,252
Due to/(from)	-	672,175	(672,175)	-	-	672,175	(672,175)	-
Federal grants receivable	77,690	-	-	77,690	77,961	-	-	77,961
Total Current Assets	119,488	45,590,184	9,737,745	55,447,417	119,335	39,937,049	10,580,999	50,637,383
Noncurrent Assets								
Loans receivable, net of current portion	-	104,132,664	-	104,132,664	-	105,534,617	-	105,534,617
Total Noncurrent Assets	-	104,132,664	-	104,132,664	-	105,534,617	-	105,534,617
Total Assets	\$ 119,488	\$ 149,722,848	\$ 9,737,745	\$ 159,580,081	\$ 119,335	\$ 145,471,666	\$ 10,580,999	\$ 156,172,000
Liabilities								
Current Liabilities								
Vouchers payable	\$ 122,056	\$ -	\$ 7,791	\$ 129,847	\$ 119,335	\$ 1,756,974	\$ -	\$ 1,876,309
Total Current Liabilities	122,056	-	7,791	129,847	119,335	1,756,974	-	1,876,309
Long-Term Liabilities								
Unearned revenue - state match	-	-	-	-	-	172,734	-	172,734
Total Liabilities	122,056	-	7,791	129,847	119,335	1,929,708	-	2,049,043
Net Position								
Net Position - Unrestricted	(2,568)	149,722,848	9,729,954	159,450,234	-	143,541,958	10,580,999	154,122,957
Total Liabilities and Net Position	\$ 119,488	\$ 149,722,848	\$ 9,737,745	\$ 159,580,081	\$ 119,335	\$ 145,471,666	\$ 10,580,999	\$ 156,172,000

State of Delaware
Drinking Water Revolving Loan Fund
 Schedule of Fund Activities by Classification
 June 30, 2017 and 2016

	2017				2016			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Operating Revenues								
Interest income - loans	\$ -	\$ 1,414,160	\$ -	\$ 1,414,160	\$ -	\$ 1,422,885	\$ -	\$ 1,422,885
Interest income - administrative fees	-	-	1,380,279	1,380,279	-	-	1,454,429	1,454,429
Loan origination fees	-	-	1,118	1,118	-	-	2,375	2,375
Total Operating Revenues	-	1,414,160	1,381,397	2,795,557	-	1,422,885	1,456,804	2,879,689
Operating Expenses								
Salaries and related benefits	1,502,592	-	59,297	1,561,889	1,610,586	-	-	1,610,586
Contract services	682,708	-	334,037	1,016,745	754,887	-	211,569	966,456
Grants	-	-	274,258	274,258	-	-	195,919	195,919
Indirect costs	245,847	-	-	245,847	326,945	140	-	327,085
Supplies	94,480	-	-	94,480	68,956	-	251	69,207
Training	1,796	-	-	1,796	501	-	-	501
Travel	10,306	-	14	10,320	11,777	-	-	11,777
Total Operating Expenses	2,537,729	-	667,606	3,205,335	2,773,652	140	407,739	3,181,531
Operating Income (Loss)	(2,537,729)	1,414,160	713,791	(409,778)	(2,773,652)	1,422,745	1,049,065	(301,842)
Nonoperating Revenues								
Interest income - cash accounts	-	339,792	97,564	437,356	-	201,055	76,530	277,585
Grant revenue	2,535,161	4,916,986	-	7,452,147	2,773,652	5,402,858	-	8,176,510
Principal forgiveness	-	(2,325,182)	-	(2,325,182)	-	(1,841,848)	-	(1,841,848)
State match	-	172,734	-	172,734	-	1,584,666	-	1,584,666
Total Nonoperating Revenues	2,535,161	3,104,330	97,564	5,737,055	2,773,652	5,346,731	76,530	8,196,913
Transfers in (out)	-	1,662,400	(1,662,400)	-	-	-	-	-
Change in Net Position	(2,568)	6,180,890	(851,045)	5,327,277	-	6,769,476	1,125,595	7,895,071
Net Position - Beginning of Year	-	143,541,958	10,580,999	154,122,957	-	136,772,482	9,455,404	146,227,886
Net Position - End of Year	\$ (2,568)	\$ 149,722,848	\$ 9,729,954	\$ 159,450,234	\$ -	\$ 143,541,958	\$ 10,580,999	\$ 154,122,957



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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
State of Delaware Drinking Water Revolving Loan Fund

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, 2017, and the related notes to the financial statements, which collectively comprise the State of Delaware Drinking Water Revolving Loan Fund's basic financial statements and have issued our report thereon dated May 14, 2018.

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.

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.

To the Management
State of Delaware Drinking Water Revolving Loan Fund

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Belfint, Lyons & Shuman, P.A.

May 14, 2018
Wilmington, DE