

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

**Financial Statements
Years Ended June 30, 2017 and 2016**

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Independent Auditors' Report

To the Management
Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware

We have audited the accompanying financial statements of Delaware Water Pollution Control Revolving Loan Fund (the Fund) of the State of Delaware as of and for the year ended June 30, 2017, and the related notes to the basic 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware as of June 30, 2017, and the

To the Management
Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware

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 Delaware Water Pollution Control 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 Delaware Water Pollution Control Revolving Loan Fund as of June 30, 2016 were audited by other auditors, whose report dated January 19, 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 discussed in Note L, Delaware Water Pollution Control Revolving Loan Fund has restated its June 30, 2016 financial statements during the current year to restate the Nonfederal Administrative Fund Pooled Cash and Investments, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the June 30, 2016 financial statements before the restatement.

As part of our audit of the June 30, 2017 financial statements, we also audited adjustments to correct a material misstatement described in Note L 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 Delaware Water Pollution Control 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 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

To the Management
Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware

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 Delaware Water Pollution Control Revolving Loan Fund's basic financial statements. Information for the sub-funds that comprise the Fund (Federal Administrative Fund, Capital Reserve Loan Fund, and Nonfederal Administrative Fund) presented in the statement of net position on page 9 and the statement of revenues, expense and changes in net position on page 10 as of and for the year ended June 30, 2017, together referred to as supplemental information as presented 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.

Information for the sub-funds that comprise the Fund (Federal Administrative Fund, Capital Reserve Loan Fund, and Nonfederal Administrative Fund) presented in the statement of net position on page 9 and the statement of revenues, expense and changes in net position on page 10 as of and for the year ended June 30, 2016 were subjected to the auditing procedures applied in the June 30, 2016 audit 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 30, 2018 on our consideration of the Delaware Water Pollution Control 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 Water Pollution Control Revolving Loan Fund's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

May 30, 2018
Wilmington, DE

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Management's Discussion and Analysis
June 30, 2017 and 2016

As management of the Delaware Water Pollution Control Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2017 and 2016 (fiscal year 2017 and 2016, respectively).

This section of the Fund's annual financial report presents management's discussion and analysis of the financial performance during the fiscal years. Please read it in conjunction with the Fund's financial statements, which follow this section. The financial statements for the year ended June 30, 2016 have been restated. See Note L.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of two components: Fund financial statements and notes to the financial statements.

Financial Highlights

In fiscal year 2017, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$6,525,000 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2017, DNREC has received Federal Capitalization Grants in an aggregate amount of \$232,699,510 since the inception of the Fund. As of June 30, 2017, the State of Delaware has provided State match funds of \$42,692,084 since the inception of the Fund. The combined total capitalization amount at June 30, 2017 was \$275,391,594 since the inception of the Fund.

The Fund realized operating income of \$1,166,774 in fiscal year 2017, which represents an increase of \$171,286, from the fiscal year ended June 30, 2016 (fiscal year 2016). Contributions from the federal and State governments totaled \$11,553,294 in fiscal year 2017, a 25% decrease from fiscal year 2016.

Operating revenues for fiscal year 2017 (including interest income on loans) increased \$196,914 or 5% from the previous year. Operating revenues for fiscal year 2016 (including interest income on loans) decreased \$75,927 or 2% from the previous fiscal year.

Loans and lease disbursements made totaled \$21,284,913 during the fiscal year 2017, which represents an increase of \$7,477,207 or 54% from fiscal year 2016. The increase in loan disbursements from fiscal year 2016 to fiscal year 2017 is primarily due to one lease and two loan disbursements. Loans collections totaled \$11,347,054 during fiscal year 2017 which represents an increase of \$261,046 or 2% from fiscal year 2016.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund
Management's Discussion and Analysis - Continued
June 30, 2017 and 2016

Statement of Net Position

The following schedule summarizes the statements of net position (thousands of dollars) of the Fund as of June 30, 2017, 2016 and 2015:

	June 30,		
	2017	2016	2015
Current assets			
Pooled cash and investments	\$114,431	\$108,749	\$ 98,045
Grants receivable	-	2,517	54
Administrative fees receivable	334	274	293
Interfund receivable	1,695	562	588
Due from other entities	71	166	-
Interest receivable	399	332	352
Leases receivable, current	1,134	-	-
Loans receivable, current	11,287	9,942	10,959
Total current assets	129,351	122,542	110,291
Noncurrent assets			
Leases receivable, less current portion	6,479	5,026	-
Loans receivable, less current portion	162,529	158,000	159,035
Total assets	\$298,359	\$285,568	\$269,326
Current liabilities			
Vouchers payable & Accrued Payroll	\$ 534	\$ 1,310	\$ 109
Unearned state match	-	788	1,911
Interfund payable	1,695	562	588
Total liabilities	2,229	2,660	2,608
Net Position - unrestricted	296,130	282,908	266,718
Total liabilities and net position	\$298,359	\$285,568	\$269,326

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Management's Discussion and Analysis - Continued
June 30, 2017 and 2016

Statement of Net Position - Continued

The combined total net position of the Fund for the fiscal year ended June 30, 2017 increased by \$13,221,445 from fiscal year 2016, which increased by \$16,190,465 from the fiscal year ended June 30, 2015 (fiscal year 2015).

Pooled cash and investments increased \$5,682,778 or 5% to \$114,430,891 during fiscal year 2017, as a function of loan collections and federal reimbursements.

Pooled cash and investments increased \$10,702,983 or 11% to \$108,748,113 during fiscal year 2016, as a function of loan collections and federal reimbursements.

Unearned income from the State match decreased \$788,063 or 100% during fiscal year 2017, as the Fund recognized its match to fund operating expense and loan disbursements to borrowers.

Unearned income from the State match decreased \$1,123,321 or 59% during fiscal year 2016, as the Fund recognized its match to fund operating expense and loan disbursements to borrowers.

Statement of Revenues, Expenses and Changes in Net Position

The following schedule summarizes the statements of revenues, expenses and changes in net position (thousands of dollars) for fiscal years 2017, 2016 and 2015:

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

**Management's Discussion and Analysis - Continued
June 30, 2017 and 2016**

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

	June 30,		
	2017	2016	2015
Operating revenues			
Interest income on loans	\$ 1,933	\$ 1,926	\$ 1,935
Administrative fee revenue	1,991	1,823	1,890
Application fees	22	1	1
Other income	1	1	1
Total operating revenues	3,947	3,751	3,827
Operating expenses			
Reimbursable expenditures under operating grants:			
Personnel costs	1,299	1,239	1,293
Travel	5	10	8
Contractual services	257	344	309
Supplies	16	10	13
Other expenses	61	45	13
Grants made	1,142	1,107	1,447
Total operating expenses	2,780	2,755	3,083
Operating income	1,167	996	744
Nonoperating revenues (expenses)			
Interest income on deposits	1,159	637	378
Contributions, EPA	10,065	12,834	7,069
Contributions, State	1,488	2,567	1,412
Loan forgiveness and write-offs	(657)	(844)	(1,204)
Total nonoperating revenues (expenses)	12,055	15,194	7,655
Change in net position	13,222	16,190	8,399
Net position - beginning	282,908	266,718	258,319
Net position - ending	\$296,130	\$282,908	\$266,718

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Management's Discussion and Analysis - Continued
June 30, 2017 and 2016

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

The Fund reported operating revenues of \$3,947,491 during fiscal year 2017, which represents an increase of \$196,924 or 5% from fiscal year 2016. The Fund reported operating revenues of \$3,750,567 during fiscal year 2016, which represents an increase of \$75,927 or 2% from fiscal year 2015. The increase in the current fiscal year is primarily a result of increased interest and administrative fee income, which were monies received as part of loan repayments. Borrowers are required to pay interest and administrative fees on funds disbursed during construction as well as throughout the life of the loan. Due to an increase in new loans issued in the prior year, income from interest and administrative fees increased. The Fund reported an overall increase of \$13,221,445 in total net position for fiscal year 2017, and an overall increase of \$16,190,465 in total net position for fiscal year 2016.

Federal grant revenue decreased by \$2,768,930 or 22% during fiscal year 2017, while the State match decreased by \$1,079,056, or 41%.

Federal grant revenue increased by \$5,765,624 or 82% during fiscal year 2016, while the State match increased by \$1,154,669, or 82%.

Total operating expenses increased \$25,638 or 1% during fiscal 2017, due to an increase in grants made out of the Nonfederal Administrative Fund. Total operating expenses decreased \$327,467 or 11% during fiscal year 2016, due to a decrease in grants made and personnel expenses paid out of the Nonfederal Administrative Fund.

During fiscal year 2017, the Fund recognized nonoperating expenses \$657,264 for loan forgiveness and write-offs compared to \$843,840 in fiscal year 2016.

Requests for Information

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

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Statements of Net Position
June 30, 2017 and 2016

	2017				2016			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
Current assets								
Pooled cash and investments	\$ 309,303	\$ 109,167,898	\$ 4,953,690	\$ 114,430,891	\$ -	\$ 102,530,704	\$ 6,217,409	\$ 108,748,113
Grants receivable	-	-	-	-	-	2,516,994	-	2,516,994
Administrative fees receivable	-	-	334,266	334,266	-	-	273,603	273,603
Interfund receivable	-	-	1,694,619	1,694,619	-	-	562,163	562,163
Due from Other Entities	-	-	70,646	70,646	-	132,124	33,943	166,067
Interest receivable	-	399,131	-	399,131	-	332,100	-	332,100
Leases receivable - current	-	1,134,012	-	1,134,012	-	-	-	-
Loans receivable - current	-	11,286,696	-	11,286,696	-	9,942,352	-	9,942,352
Total current assets	<u>309,303</u>	<u>121,987,737</u>	<u>7,053,221</u>	<u>129,350,261</u>	<u>-</u>	<u>115,454,274</u>	<u>7,087,118</u>	<u>122,541,392</u>
Noncurrent assets								
Leases receivable, less current portion	-	6,479,219	-	6,479,219	-	5,026,348	-	5,026,348
Loans receivable, less current portion	-	162,529,080	-	162,529,080	-	158,000,551	-	158,000,551
Total assets	<u>\$ 309,303</u>	<u>\$ 290,996,036</u>	<u>\$ 7,053,221</u>	<u>\$ 298,358,560</u>	<u>\$ -</u>	<u>\$ 278,481,173</u>	<u>\$ 7,087,118</u>	<u>\$ 285,568,291</u>
Current liabilities								
Vouchers payable	\$ -	\$ 489,059	\$ -	\$ 489,059	\$ -	\$ 1,309,899	\$ -	\$ 1,309,899
Accrued payroll	-	-	45,271	45,271	-	-	-	-
Unearned state match	-	-	-	-	-	788,063	-	788,063
Interfund payable	309,303	1,385,316	-	1,694,619	-	562,163	-	562,163
Total liabilities	<u>309,303</u>	<u>1,874,375</u>	<u>45,271</u>	<u>2,228,949</u>	<u>-</u>	<u>2,660,125</u>	<u>-</u>	<u>2,660,125</u>
Net position-unrestricted	<u>-</u>	<u>289,121,661</u>	<u>7,007,950</u>	<u>296,129,611</u>	<u>-</u>	<u>275,821,048</u>	<u>7,087,118</u>	<u>282,908,166</u>
Total liabilities and net position	<u>\$ 309,303</u>	<u>\$ 290,996,036</u>	<u>\$ 7,053,221</u>	<u>\$ 298,358,560</u>	<u>\$ -</u>	<u>\$ 278,481,173</u>	<u>\$ 7,087,118</u>	<u>\$ 285,568,291</u>

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017				2016			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
Operating revenues								
Interest income on loans	\$ -	\$ 1,932,672	\$ -	\$ 1,932,672	\$ -	\$ 1,925,843	\$ -	\$ 1,925,843
Administrative fee revenue	-	-	1,991,005	1,991,005	-	-	1,822,901	1,822,901
Application fees	-	1,049	21,764	22,813	-	1,009	-	1,009
Other income	-	1,001	-	1,001	-	814	-	814
Total operating revenues	-	1,934,722	2,012,769	3,947,491	-	1,927,666	1,822,901	3,750,567
Operating expenses								
Reimbursable expenditures under operating grants:								
Personnel costs	315,559	-	983,834	1,299,393	301,056	-	937,946	1,239,002
Travel	5,107	-	-	5,107	-	-	9,843	9,843
Contractual services	153,455	8,819	94,852	257,126	480	-	343,285	343,765
Supplies and office expenses	16,044	-	-	16,044	-	-	10,343	10,343
Other expenses	60,309	289	-	60,598	40,749	197	4,150	45,096
Grants made	-	-	1,142,449	1,142,449	-	-	1,107,030	1,107,030
Total operating expenses	550,474	9,108	2,221,135	2,780,717	342,285	197	2,412,597	2,755,079
Operating income (loss)	(550,474)	1,925,614	(208,366)	1,166,774	(342,285)	1,927,469	(589,696)	995,488
Nonoperating revenues and expenses								
Interest income on deposits	-	1,104,777	53,864	1,158,641	-	598,803	38,734	637,537
Contributions:								
EPA	-	10,065,231	-	10,065,231	284,826	12,549,335	-	12,834,161
State	-	1,488,063	-	1,488,063	57,459	2,509,660	-	2,567,119
Loan forgiveness and write-offs	-	(657,264)	-	(657,264)	-	(843,840)	-	(843,840)
Total nonoperating revenues and expenses	-	12,000,807	53,864	12,054,671	342,285	14,813,958	38,734	15,194,977
Transfers in	550,474	508,317	583,651	1,642,442	-	-	-	-
Transfers out	-	(1,134,125)	(508,317)	(1,642,442)	-	-	-	-
Change in net position	-	13,300,613	(79,168)	13,221,445	-	16,741,427	(550,962)	16,190,465
Net position - beginning - unrestricted	-	275,821,048	7,087,118	282,908,166	-	259,079,621	7,638,080	266,717,701
Net position - end - unrestricted	\$ -	\$ 289,121,661	\$ 7,007,950	\$ 296,129,611	\$ -	\$ 275,821,048	\$ 7,087,118	\$ 282,908,166

See accompanying notes to financial statements.

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State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Loan collections	\$ 11,347,054	\$ 11,086,008
Interest received from borrowers	1,865,641	1,945,313
Administrative fee revenue	1,930,342	1,842,006
Application fees and other revenue	23,814	1,823
Loan disbursements	(21,284,913)	(13,807,706)
General expenses paid	(2,640,025)	(2,773,059)
Net cash used in operating activities	<u>(8,758,087)</u>	<u>(1,705,615)</u>
Cash flows from noncapital financing activities		
Grants received from EPA	12,582,224	10,371,061
State portion funded by recipient	700,000	1,400,000
Net cash provided by noncapital financing activities	<u>13,282,224</u>	<u>11,771,061</u>
Cash flows from investing activities		
Interest on deposits	<u>1,158,641</u>	<u>637,537</u>
Net increase in pooled cash and investments	5,682,778	10,702,983
Pooled cash and investments - beginning of year	<u>108,748,113</u>	<u>98,045,130</u>
Pooled cash and investments - end of year	<u>\$ 114,430,891</u>	<u>\$ 108,748,113</u>
Reconciliation of net operating income to cash used in operating activities:		
Cash flows from operating activities:		
Operating income	\$ 1,166,774	\$ 995,488
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Administrative fees receivable	(60,663)	19,105
Interest receivable	(67,031)	19,470
Loans receivable	(6,530,137)	(3,818,835)
Leases receivable	(2,586,882)	-
Due from Other Entities	95,421	(166,067)
Accrued payroll	45,271	-
Vouchers payable	(820,840)	1,245,224
Net cash used in operating activities	<u>\$ (8,758,087)</u>	<u>\$ (1,705,615)</u>
Schedule of noncash investing activities		
Loan forgiveness and write-offs	<u>\$ (657,264)</u>	<u>\$ (843,840)</u>

See accompanying notes to financial statements.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements
June 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Delaware Water Pollution Control Revolving Loan Fund (the Fund) is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

1. General Background

The Fund was created by the 1990 session of the Delaware General Assembly and received its first State appropriation on July 1, 1990. The Fund's purpose is to make below-market interest rate loans to local governments, individuals, and other qualifying applicants under the Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds (SRF) federal assistance program. The Fund's enabling legislation empowers the Department of Natural Resources and Environmental Control (DNREC) to administer the Fund.

2. Type of Entity and Division of Funds

The Fund's activities are accounted for as a distinct operating unit and a Proprietary Fund within DNREC's Office of the Secretary. Accordingly, the financial statements of the Fund are intended to present the financial position, results of operations and cash flows of Proprietary Fund types of only that portion of the funds of the State of Delaware (the State) that are attributable to the transactions of the Fund.

The Fund is divided into three sub-funds:

- The Federal Administrative Fund, which accounts for program-related administrative activities;
- The Capital Reserve Loan Fund, which accounts for capital lending and repayment activities; and
- The Nonfederal Administrative Fund, which accounts for monies that the State has been authorized, by the EPA, to allocate from the SRF program for the State's use. The use of these funds are governed by EPA rules and regulations 40 CFR Part 35 Guidance on Fees Charged by State to Recipients of Clean Water State Revolving Fund Program Assistance.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies - Continued

3. Measurement Focus and Basis of Accounting

The accompanying financial statements of the Fund have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with United States generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The Fund's activities are financed and operated as an enterprise fund. 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.

4. Recognition of Revenues

Federal assistance provided by the Capitalization Grants for the SRF program is earned when qualified expenditures are incurred by the borrowers and the Fund. Matching funds provided by the State are considered earned by the same criteria. Amounts earned in excess of grant monies received from the EPA are recorded as grants receivable. Amounts received from the State in excess of amounts earned are considered deferred grant revenue and recorded as unearned State match.

To permit comparability to grant revenues earned and fiscal budgets, expenditures reimbursable under the Fund's program guidelines are listed separately by object category and subtotaled in the statement of revenues, expenses and changes in net position.

Operating revenues include those that result from the Fund's lending activities. Nonoperating revenues include those from noncapital financing and investing activities.

5. Pooled Cash and Investments

Pooled cash and investments consist of the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note B - Pooled Cash and Investments

Pooled Cash and Investments

Pooled cash and investments as reported on the statement of net position represent the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware (Treasurer). All cash is deposited with the Treasurer by State agencies and maintained by the Treasurer in various pooled funds. The Treasurer invests the deposited cash, including cash float in short-term securities and other investments. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average daily cash balance. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized by risk because they are not evidenced by securities that exist in a physical or book-entry form. Since the Fund's deposits and investments are part of the State's pooled deposits and investments maintained by the Treasurer, the required disclosures are included within the State of Delaware's financial statements.

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 United States Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note B - Pooled Cash and Investments - 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.

Since the Fund's pooled cash and investments are managed by the Treasurer, the Fund is unable to control compliance with the collateralization requirements or determine if these requirements have been met.

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

Pooled Cash and Investments - Federal Administrative Fund

The pooled cash and investments in the Federal Administrative Fund represent grant funds drawn to pay administrative expenses of the Fund. The grant agreement permits an amount up to one-fifth of one percent of the prior year's Net Fund Balance for these administrative expenses.

Pooled Cash and Investments - Capital Reserve Loan Fund

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

Pooled Cash and Investments - Administrative Fees

The pooled cash and investments from administrative fees on municipal loans is recorded in the Nonfederal Administrative Fund, and is then available to the State for use at its discretion.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note C - Loans Receivable

The loans receivable account is made up of the following major categories for the years ended June 30:

	2017	2016
Municipal loans		
Sussex County Council	\$ 41,281,103	\$ 44,450,307
City of Wilmington	39,546,569	37,835,733
City of Seaford	5,387,480	4,687,293
Kent County	18,558,117	19,889,214
City of Milford	748,852	1,418,735
New Castle County	2,087,141	2,251,415
Town of Selbyville	1,551,394	1,720,605
Town of Laurel	1,863,936	1,786,455
City of Dover	5,150,851	5,487,090
Camden Wyoming Sewer & Water Authority	105,578	126,847
Town of Millsboro	14,586,917	10,074,267
Town of Bridgeville	3,667,060	1,897,509
City of Lewes	8,837,772	8,147,690
Town of Delmar	934,658	996,678
Town of Georgetown	2,778,661	3,038,199
City of Harrington	4,014,428	4,641,272
Dewey Beach	223,773	270,837
Town of Middletown	231,025	274,535
Town of Smyrna	6,587,730	4,991,392
City of Rehoboth Beach	336,843	383,119
Town of Harbeson	6,522,323	4,396,947
Total municipal loans	165,002,211	158,766,139
ARRA loans		
Sussex County Council	5,290,421	5,609,814
Kent County	635,567	676,197
Total ARRA loans	\$ 5,925,988	\$ 6,286,011

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note C - Loans Receivable - Continued

	2017	2016
State Agencies Loans	\$ -	\$ -
Septic Rehabilitation Program	2,842,538	2,803,404
Agriculture Nonpoint Source Loans	35,824	59,665
Dairy Loan Program	5,821	10,342
Expanded Agriculture Loan Program	3,394	17,342
Total loans	\$ 173,815,776	\$ 167,942,903
Current portion	\$ 11,286,696	\$ 9,942,352
Long-term portion	162,529,080	158,000,551
Total loans	\$ 173,815,776	\$ 167,942,903

Interest charged on these loans ranges from 0% to 6.0% for both fiscal year 2017 and 2016. Loan maturities vary, based on individual agreements. General Obligation and Municipal Revenue bonds are collateral for municipal loans; business assets and real estate are collateral for other loans.

The loans are shown net of an allowance for doubtful accounts of \$262,766 for fiscal year 2017 and \$267,293 for fiscal year 2016 for accounts in collection. During fiscal year 2017 and 2016, several loan balances were forgiven or written off as part of the terms of the loan agreements. Total loans forgiven or written off during fiscal year 2017 and 2016 were \$657,264 and \$843,840, respectively.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note D - Leases Receivable

The Fund, as lessor, has entered into agreements with the Delaware Department of Natural Resources and Environmental Control (“DNREC”), the lessee, to finance the construction of water quality improvement projects totaling \$7,613,231 and \$5,026,348 as of June 30, 2017 and 2016, respectively. The leases call for an initial term of five years. The Fund has secured interest in the improvements financed with the proceeds from the lease agreements. Rent is payable twice annually. Lease payments are contingent upon DNREC receiving sufficient revenue or appropriations for the legal payment of the lease agreements. The leases include an option for DNREC to prepay the entire balance of the leases. During fiscal years 2017 and 2016, the Fund disbursed \$3,772,854 and \$4,265,981 under lease agreements, respectively. During fiscal years 2017 and 2016, the Fund collected \$1,000,000 and \$0, respectively, under the lease agreements.

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

2018	\$	138,337
2019		281,016
2020		286,481
2021		292,240
2022		298,114
2023 and beyond		<u>6,317,043</u>
	\$	<u><u>7,613,231</u></u>

Note E - Significant Source of Revenue - State Revolving Loan Grant

The Fund currently derives a significant portion of its revenue from EPA State Revolving Fund Capitalization Grant awards and mandatory State matching funds. The total funds awarded through a series of agreements during the federal capitalization period (October 1, 1990 through June 30, 2017) were \$275,391,594, which includes the federal portion of \$232,699,510, or five-sixths, and the State matching portion of \$42,692,084, or one-sixth.

According to federal program guidelines, the Fund may spend up to one-fifth of the prior year’s Net Fund Balance of the federal awards on administrative expenses. As previously described in Note A, a separate Administrative Fund is used to account for such costs and related revenues.

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

**Notes to Financial Statements - Continued
June 30, 2017 and 2016**

Note E - Significant Source of Revenue - State Revolving Loan Grant - Continued

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

	Federal	State	Total
Awards made through June 30, 2017	\$ 232,699,510	\$ 42,692,084	\$ 275,391,594
Awards expended through June 30, 2017	\$ 232,699,188	\$ 41,584,448	\$ 274,283,636

Note F - Deobligation of Federal Funds Between the Fund and the Drinking Water State Revolving Fund and Corresponding State Match

On September 4, 2012, the EPA deobligated \$27,050,177 of the Drinking Water State Revolving Fund (DWSRF) federal capitalization grant and awarded it to the Fund. As part of the deobligation, \$5,410,035 initially appropriated to the DWSRF, which represented the required 20% state match, was also appropriated to the Fund.

In accordance with the deobligation and the Fund's Intended Use Plan (Plan), the total \$32,460,212, described above, will be returned to the DWSRF 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 DWSRF. When funds are transferred between the Fund and DWSRF, the funds will be accounted for as transfers out and in, respectively.

Note G - Pension Plan

Employees that administer the Fund are considered employees of DNREC and the State and are covered under the State Employees' Pension Plan (the Plan). While the Fund contributed to the Plan \$102,917 for fiscal year 2017 and \$95,976 for fiscal year 2016, respectively, which is included in the financial statements as personnel costs, the Fund is not a reporting unit and does not share in the State Employees' Pension Plan net pension liability.

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

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note G - Pension Plan - Continued

There are two tiers within this plan:

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

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

Vesting:

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

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

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

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

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

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

Contributions – Employer – determined by Board of Pension Trustees based on the actuarially determined rate. Employer contributions were 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.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note G - Pension Plan - Continued

Death Benefit - \$7,000 per member.

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

The Delaware Public Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402 or online at www.delawarepensions.com.

Note H - 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

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

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

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

Eligibility - Continued:

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
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note I - Commitments and Contingencies

1. Operating Lease

Beginning July 1, 1997, DNREC entered into a lease for office space, on behalf of the Fund, of which the Fund currently pays 100%. The operating lease is on a month to month basis. Rent expense, which is included in the financial statements as contractual services, was \$19,763 and \$47,462 in fiscal year 2017 and 2016, respectively.

2. Loan Commitments

The Fund has met its prior binding commitments (equal to at least one hundred twenty percent (120%) of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2017, there were \$22,189,912 in undisbursed loan proceeds for projects under construction. There was also a binding loan commitment of \$235,063 to the Town of Laurel.

3. Cost Reimbursement Contracts

The Fund derives all of its non-operating revenue from EPA Capitalization Grants for State Revolving Fund Program and mandatory State matching funds which are contracts based on the reimbursement of allowance costs related to the program. Costs are subject to review by the EPA. Management does not believe there are any adjustments that could arise from disallowed costs that would materially impact the Fund's financial statements.

4. Deobligation of the Drinking Water State Revolving Loan Fund Grants

On September 4, 2012, the EPA deobligated \$27,050,177 of Drinking Water State Revolving Loan Fund (DWSRF) grant award and awarded those funds to the Fund. While the Fund is presently able to utilize those funds for its own projects, the funds will eventually be provided back to the DWSRF to fund drinking water projects in the future.

Note J - Risk Management

The Fund is insured under the State's insurance plans. The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note J - Risk Management - Continued

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 K - American Recovery and Reinvestment Act of 2009

During the fiscal year ended June 30, 2009, the Fund was awarded additional funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009 in the amount of \$19,239,100. The Fund began processing various loan applications and began disbursing the funds in fiscal year 2011. The loan agreements state that each loan will be granted principal forgiveness of between 25% and 100% of the loan amount upon completion of the project. During fiscal year 2017 and 2016, the Fund forgave \$0 in ARRA loans.

Note L - Restatement

As noted in Note M, the Nonfederal Administrative Fund is used to fund the Septic Extended Funding Option (SEFO) Fund. The funding has been reported as grants made on the Statement of Revenues, Expenses and Changes in Net Position. The SEFO fund for fiscal years ending June 2017 and 2016 had requested funding in advance of its spending needs resulting in a cash balance at the end of the fiscal year in the SEFO fund.

The cash balance in the Nonfederal Administrative Fund as of June 30, 2016 has been restated. Funds previously reported as spent for SEFO grants were added back to the cash balance. The restatement resulted in a reduction to grants made, an increase in net position and an increase in cash as of June 30, 2016 of \$231,981.

State of Delaware
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued
June 30, 2017 and 2016

Note M - Nonfederal Administrative Fund

The Nonfederal Administrative Fund account is used to supplement administrative expenses of the Fund and other water quality improvement expenses.

The Nonfederal Administrative Fund will also continue to fund the Septic Extended Funding Option (SEFO) Fund and other water quality areas. The SEFO Fund provides grants to individuals or entities which do not qualify for a Revolving Loan.

During the fiscal year ended June 30, 2017, the Nonfederal Administrative Fund funded the following:

SEFO grants	\$ -
Wastewater matching planning grants	482,069
DNREC other program matching planning grants	106,970
Personnel costs for other water quality areas	<u>553,410</u>
Total	<u>\$ 1,142,449</u>

Note N - Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through the date the financial statements were available to be issued.

Note O - Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.



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

Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware's basic financial statements and have issued our report thereon dated May 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Delaware Water Pollution Control 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 Water Pollution Control Revolving Loan Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delaware Water Pollution Control 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be

To the Management
Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware

material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as finding 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware Water Pollution Control 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*.

Delaware Water Pollution Control Revolving Loan Fund's Response to Findings

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

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 30, 2018
Wilmington, DE

DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENT FINDING

Reference Number: 2017-001

Type of Finding: Significant Deficiency

Financial Reporting Close Process

Condition: During our audit work, we noted misstatements of the general ledger balances of the Delaware Water Pollution Control Revolving Loan Fund of the State of Delaware (the Fund) requiring six adjusting journal entries and a prior period adjustment.

Criteria: Strong internal control requires the adequate review and adjustment of the year-end accounting data and financial information used to prepare the Fund's financial statements in accordance with generally accepted accounting principles. United States Environmental Protection Agency regulations require the State of Delaware to timely and accurately maintain a separate account or series of accounts dedicated solely to the Fund.

Cause: The Fund's accounts were not timely maintained or reconciled to First State Financials (the State's accounting system) during the year ended June 30, 2017. The Fund's closing process was not completed until February 2018 and did not identify misstatements. The Fund's closing process also did not identify a cash balance in the Nonfederal Administrative Fund related to the Septic System Extended Funding Option (SEFO) program that was excluded from the financial statements as of June 30, 2017 and 2016, resulting in a prior period adjustment.

The vacancy of the Fund's accounting position during part of the year and during the closing process contributed to the condition. The Fund engaged an accounting consultant to maintain the Fund's accounts during the time its accounting position was vacant.

Effect: Misstatements were discovered by the auditor that required six adjusting journal entries and a prior period adjustment.

Recommendation: We recommend that the Fund fully implement a process to reconcile the Fund's general ledger to the transaction detail in First State Financials. This process should include a reconciliation of all balances, including cash, to the balances reported in First State Financials and the subsidiary ledgers used to track loan balances. As part of that implementation, the Fund should evaluate the June 30, 2017 audit adjustments to ensure that procedures and controls are in place to properly identify and record similar entries, on a timely basis, in the future.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan

DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTION PLAN
YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENT FINDINGS

Reference Number: 2016-001

Type of Finding: Significant Deficiency

Continued Controls Over Financial Reporting

Condition: During the year, the Fund records its transactions on the cash basis of accounting using First State Financials (FSF), the State of Delaware's accounting system. In addition, the Fund's FSF accounts have been incorporated into QuickBooks for both internal and external reporting purposes. In connection with our audit, we noted that a formal and periodic reconciliation was not being performed between the amounts in FSF and QuickBooks for the Non Federal Administrative Fund. In prior year audits, the reconciliation was performed.

With some of the changeover in the personnel due to an unexpected medical emergency, procedures were not put in place to continue the necessary reconciliation process between FSF and QuickBooks.

Current Status: Similar findings were noted during the June 30, 2017 audit and are reported as finding 2017-001.

**DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND
RESPONSE AND CORRECTIVE ACTION PLAN
TO FINANCIAL AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2017**

Reference Number: 2017-001

Type of Finding: Significant Deficiency

Financial Reporting Close Process

In order to resolve issues relating to the noted misstatements of the general ledger balances of the Delaware Pollution Control Revolving Funds of the State of Delaware, Clean Water State Revolving Fund (the Fund) requiring six adjusting journal entries and prior period adjustment:

1. In recent times, Environmental Finance has experienced an unprecedented turnover of its fiscal management staff due to illness and other unforeseen events. This has precipitated the cross training of affiliated fiscal staff as back up and the procurement of certified public accounting services to provide additional oversight to resolve the State Fiscal 2017 financial reporting and close process.
2. DNREC has filled the Fiscal Management Analyst (FMA) position that was vacated twice during the Fiscal Years 2016 and 2017 which resulted in the misstatements and delay in the Fund's closing process.
3. DNREC has established a reconciliation of the Fund's general ledger to the First State Financials transaction details that will be performed monthly by the FMA and validated by at least two (2) additional financial staff, including the Chief of Administration.
4. DNREC agrees to identify the Septic System Extended Funding Option (SEFO) program as part of the Fund's Nonfederal Administrative Fund cash balance in future fiscal years.
5. Finally, DNREC will establish desk manuals for all primary fiscal positions that support the SRF. The desk manuals will provide detailed procedures for all transactions associated with the management of the SRF programs. This will improve transitions of daily operations and any temporary reassignments that may be necessary in the event of unforeseen staff turnover in the future. The desk manuals will be reviewed periodically, no less frequently than annually, to assure that they are up to date.

Reference Number: 2016-001

Type of Finding: Significant Deficiency

Continued Controls Over Financial Reporting

The noted State Fiscal Year 2016 finding (2016-001) precipitated from an unprecedented turnover of fiscal management staff due to illness and other unforeseen events. DNREC EF trusts that the actions outlined and implemented above will provide the necessary capacity and competency to perform timely financial reconciliations and reporting in the future.