

**State of Delaware Drinking Water Revolving Loan Fund
Financial Statements
Fiscal Years Ended June 30, 2018 and 2017**

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Independent Auditors' Report

To: Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund
89 Kings Highway
Dover, Delaware 19901

We have audited the accompanying financial statements of State of Delaware Drinking Water Revolving Loan Fund, (the Fund) which comprise the statements of net position as of June 30, 2018 and 2017 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended 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: Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
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, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 13 to the financial statements, certain errors resulting in an overstatement of amounts previously reported for loans receivable and understatement of principal forgiveness expense as of and for the year ended June 30, 2017 and reporting periods prior to that, were discovered by management during the year ended June 30, 2018. Accordingly, amounts reported for loans receivable and principal forgiveness expense have been restated in the June 30, 2017 financial statements now presented, and adjustment has been made to net position as of June 30, 2017, to correct the error. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State of Delaware Drinking Water Revolving Loan Fund and do not purport to, and do not present fairly the financial position of the State of Delaware as of June 30, 2018 and 2017, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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 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.

To: Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund

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 schedules of fund net position by fund, schedules of activities by fund, schedules of fund net position by classification, and schedules of activities by classification as of and for the years ended June 30, 2018 and 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2019, 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.

March 19, 2019
Wilmington, DE

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2018 and 2017**

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, 2018 and 2017 (fiscal years 2018 and 2017). 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.

The United States Environmental Protection Agency (the "EPA") authorized the Fund to issue subsidization through principal forgiveness loans. These loans are deemed no longer outstanding after the last loan disbursement is forgiven per the terms of the loan agreement. Therefore, it is the Fund's policy to maintain an allowance for subsidization through principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made.

There was a restatement of prior year financial statements to reflect loan subsidies offered as an allowance against the loans and as subsidization through principal forgiveness as the loans are drawn. As a result, there was a decrease in fiscal 2016 loans receivable and an increase in subsidization through principal forgiveness of \$2,777. Fiscal 2017 was restated reflecting a decrease in loans receivable of \$7,705 and principal forgiveness was increased by \$4,928.

Financial Highlights (Numbers in Thousands)

The Fund realized a change in net position of \$2,395 in fiscal year 2018, which represents an increase of 500%. The increase was a result of several factors, a decrease in subsidization through principal forgiveness, which coincided with a decrease in grant revenue, and an increase in operating expenses such as contract services, grants and supplies. The Fund realized a change in net position of \$399 in fiscal year 2017, which represents a decrease of 84%. The decrease in net position in 2017 was lower than in prior years due to increased loan forgiveness.

Grant revenue recognized from the federal and state governments totaled \$4,653 in fiscal year 2018, a 39% decrease from fiscal year 2017, due to decreased State match revenues and a decrease in federal grants. 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 Federal and State grant revenues.

Loans made totaled \$3,979 during fiscal year 2018, which represents a decrease of \$6,217 from the previous year. This decrease of 61% was caused by decreased draws on existing loans from municipalities and others through the State. Loans made during 2017 totaled \$10,196, 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.

Loan collections (principal) totaled \$6,819 during fiscal year 2018. This represents an overall decrease of \$434, 6%, from 2017 due to decreased borrowings in recent years resulting in reduced principal payments by loan recipients. Loan collections (principal) totaled \$7,253 during 2017. This represents an overall increase of \$1,147, 19%, from the prior year.

Loan agreements may provide for a subsidization of the loan where, upon completion, a percentage of the loan will be forgiven. The allowance for subsidization for fiscal 2018 was \$3,572. This represents an overall decrease of \$4,134, 54% from fiscal 2017. The allowance for subsidization for fiscal 2017 increased \$4,928, 177% to \$7,706.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2018 increased by \$2,395 and 2017 increased by \$399. 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, 2018, 2017 and 2016.

During fiscal year 2018, pooled cash increased by approximately \$6,607, 14% to \$54,783 based on a decrease in loans made an increase in collections. Loans receivable decreased, by \$4,159, 4%, to \$98,798, mostly as a result of decreased loans made. Federal grants receivable increased by \$100, 129% due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2018.

During fiscal year 2017, pooled cash increased by approximately \$4,583, 11%, to \$48,175 based on a decrease in loans made an increase in collections. Loans receivable decreased, by \$6,067, 6%, to \$102,957, mostly as a result of increase in principal subsidization allowance. Federal grants receivable remained the same due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2017.

Vouchers payable in 2018 increased by \$92 or 71% from the prior year as a result of timing of disbursements at year end for 2018. Vouchers payable in 2017 decreased by \$1,746, or 93% for the same reason.

Table 1
Statement of Net Position
(Thousands of Dollars)

	June 30,		
	2018	2017*	2016*
Current Assets			
Pooled cash and investments	\$ 54,783	\$ 48,175	\$ 43,592
Loans, current portion	6,956	6,530	6,267
Loan interest	668	665	700
Federal grants receivable	177	78	78
Total Current Assets	<u>62,584</u>	<u>55,448</u>	<u>50,637</u>
Noncurrent Assets			
Loans, net of current portion	<u>91,842</u>	<u>96,427</u>	<u>102,758</u>
Total Assets	<u>\$ 154,426</u>	<u>\$ 151,875</u>	<u>\$ 153,395</u>
Current Liabilities			
Vouchers payable	\$ 222	\$ 130	\$ 1,876
Due to other entities	64	-	-
Total Current Liabilities	<u>286</u>	<u>130</u>	<u>1,876</u>
Noncurrent Liabilities			
Unearned revenue - state match	<u>-</u>	<u>-</u>	<u>173</u>
Total Liabilities	286	130	2,049
Net Position - Unrestricted	<u>154,140</u>	<u>151,745</u>	<u>151,346</u>
Total Liabilities and Net Position	<u>\$ 154,426</u>	<u>\$ 151,875</u>	<u>\$ 153,395</u>

*Restated

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, 2018, 2017, and 2016 (Table 2).

Federal grant revenue decreased by \$2,799, 37%, and the State match revenue decreased by \$173, 100%, during fiscal year 2018 as a lower volume of loans were due to an overall decrease in grants compared to the prior years. Federal grant revenue decreased by \$725, 9%, and the State match revenue decreased by \$1,412, 89%, during fiscal year 2017 due to an overall decrease in grants compared to the prior years.

Interest income from cash deposits decreased by \$207, 47% during fiscal year 2018, \$159, 57%, during fiscal year 2017, due mainly to fluctuations in interest rates utilized by the Treasurer of the State of Delaware.

In 2018, operating expenses increased by approximately \$497, 15%, due to increases in contract services, grants and supplies exceeding the decreases in indirect costs and travel expenses.

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.

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

	June 30,		
	2018	2017*	2016*
Operating Revenue			
Interest income - loans and administrative fees	\$ 2,679	\$ 2,794	\$ 2,877
Loan origination fees	-	1	2
Total Operating Revenue	<u>2,679</u>	<u>2,795</u>	<u>2,879</u>
Operating Expenses			
Salaries and related benefits	1,574	1,562	1,611
Contract services	1,309	1,017	966
Grants	509	274	196
Indirect costs	183	246	327
Supplies	122	94	69
Training	-	2	1
Travel	5	10	12
Total Operating Expenses	<u>3,702</u>	<u>3,205</u>	<u>3,182</u>
Operating Income	<u>(1,023)</u>	<u>(410)</u>	<u>(303)</u>
Nonoperating Revenues and expenses			
Interest income - cash deposits	230	437	278
Grant revenue	4,653	7,452	8,177
State match	-	173	1,585
Subsidization through principal forgiveness	<u>(1,465)</u>	<u>(7,253)</u>	<u>(4,619)</u>
Total Nonoperating Revenues and expenses	<u>3,418</u>	<u>809</u>	<u>5,421</u>
Change in Net Position	2,395	399	5,118
Net Position - Beginning of Year	<u>151,745</u>	<u>151,346</u>	<u>146,228</u>
Net Position - Ending of Year	<u>\$ 154,140</u>	<u>\$ 151,745</u>	<u>\$ 151,346</u>

*Restated

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Pooled cash and investments	\$ 54,782,661	\$ 48,175,318
Loans receivable	6,955,560	6,529,521
Interest receivable	668,223	664,888
Federal grants receivable	<u>177,598</u>	<u>77,690</u>
Total Current Assets	62,584,042	55,447,417
Noncurrent Assets		
Loans receivable	<u>91,842,447</u>	<u>96,426,999</u>
Total Assets	<u><u>\$ 154,426,489</u></u>	<u><u>\$ 151,874,416</u></u>
Liabilities		
Current Liabilities		
Vouchers payable	\$ 221,963	\$ 129,847
Due to other entities	<u>64,693</u>	<u>-</u>
Total Current Liabilities	286,656	129,847
Net Position		
Net Position - Unrestricted	<u>154,139,833</u>	<u>151,744,569</u>
Total Liabilities and Net Position	<u><u>\$ 154,426,489</u></u>	<u><u>\$ 151,874,416</u></u>

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Interest income - loans	\$ 1,339,758	\$ 1,414,160
Interest income - administrative fees	1,339,854	1,380,279
Loan origination fees	<u>-</u>	<u>1,118</u>
Total Operating Revenues	<u>2,679,612</u>	<u>2,795,557</u>
Operating Expenses		
Salaries and related benefits	1,574,373	1,561,889
Contract services	1,308,863	1,016,745
Grants	509,259	274,258
Indirect costs	183,045	245,847
Supplies	121,387	94,480
Training	302	1,796
Travel	<u>5,215</u>	<u>10,320</u>
Total Operating Expenses	<u>3,702,444</u>	<u>3,205,335</u>
Operating Loss	<u>(1,022,832)</u>	<u>(409,778)</u>
Nonoperating Revenues and Expenses		
Interest income - cash accounts	229,854	437,356
Grant revenue	4,653,170	7,452,147
Subsidization through principal forgiveness	(1,464,928)	(7,253,335)
State match	<u>-</u>	<u>172,734</u>
Total Nonoperating Revenues (Expenses)	<u>3,418,096</u>	<u>808,902</u>
Change in Net Position	<u>2,395,264</u>	<u>399,124</u>
Net Position - Beginning of Year	151,744,569	154,122,957
Prior period adjustment (Note 13)	<u>-</u>	<u>(2,777,512)</u>
Net Position, beginning of year, restated	<u>151,744,569</u>	<u>151,345,445</u>
Net Position - End of Year	<u>\$ 154,139,833</u>	<u>\$ 151,744,569</u>

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Loan repayments	\$ 6,818,622	\$ 7,253,135
Interest income - loans	1,338,139	1,416,310
Interest income - administrative fees	1,338,138	1,384,124
Loan origination fees	-	1,118
Loan disbursements	(3,979,095)	(10,195,954)
Salaries and related benefits paid	(1,574,373)	(1,561,889)
General expenses paid	(2,117,204)	(1,603,565)
Net cash provided by (used in) operating activities	1,824,227	(3,306,721)
 Cash flows from noncapital financing activities		
Grants received from EPA	4,553,262	7,452,418
 Cash flows from investing activities		
Interest received from cash deposits	229,854	437,356
Net increase in cash and cash equivalents	6,607,343	4,583,053
 Cash and cash equivalents - beginning of year	48,175,318	43,592,265
 Cash and cash equivalents - end of year	\$ 54,782,661	\$ 48,175,318
 Reconciliation of net operating income to net cash provided by (used in) operating activities		
Operating loss	\$ (1,022,832)	\$ (409,778)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	2,693,585	(1,185,845)
(Increase) decrease in interest and dividends receivable	(3,335)	35,364
Increase (decrease) in vouchers payable	92,116	(1,746,462)
Increase (decrease) in due to other entities	64,693	-
Net cash provided by (used in) operating activities	\$ 1,824,227	\$ (3,306,721)
 Schedule of noncash investing activities		
Subsidization through principal forgiveness	\$ (1,464,928)	\$ (7,253,335)

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

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) and Capitalization Grants for Drinking Water State Revolving Loan Fund (CFDA #66.468). 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	\$ -
1997-2013 *	145,826,098	121,521,748	24,304,350
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
2018	9,889,200	8,241,000	1,648,200
Total	<u>\$ 206,348,098</u>	<u>\$ 175,206,748</u>	<u>\$31,141,350</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, 2018 and 2017

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 2017 corresponds to the Fund's 2018 fiscal year.

The State match is paid from nonfederal administrative funds.

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, 2018 and 2017

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. Change of Accounting Policy – Revenue

Effective July 1, 2017, the Fund modified the recognition of revenue so that program revenue is earned when qualified loan requisitions and supporting expenditure documentation is received by the Fund and when the borrowers' authorized representative and consulting engineer have certified the work completed as required by the underlying loan agreements. Previously, revenue was earned when the qualified expenditures were incurred by the borrowers and the Fund. Management believes the change in revenue recognition is consistent with financing agreement and timing of requisition of funds. There is no change in the current year or on beginning net position of the Fund.

C. 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.

D. 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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

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

E. Recognition of Revenues

As of July 1, 2017, federal assistance provided to the Fund by the EPA and State is earned when qualified loan requisitions and supporting expenditure documentation is received by the Fund and when the borrowers' authorized representative and consulting engineer have certified the work completed. Matching funds provided by the State are considered earned by the same criteria. Amounts earned in excess of grant monies received from the EPA 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.

Prior to July 1, 2017, federal assistance provided to the Fund was 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.

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

F. 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).

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

G. Use of Estimates

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

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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 2 - Pooled Cash (Continued)

Pooled Cash - State Treasurer's Pool (Continued)

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.

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, 2018 and 2017, \$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, 2018, the Fund had federal grants awarded in the amount of \$175,206,748, from which it had made disbursements of \$168,614,715. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2012 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, 2018 and 2017

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

Loan Fund

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 18,778,138	\$ 18,778,138	\$ -
1997-2013	88,752,951	88,752,951	-
2014	6,103,050	6,103,050	-
2015	6,063,030	6,063,030	-
2016	5,735,280	5,735,280	-
2017	5,686,290	569,515	5,116,775
Total	<u>\$ 131,118,739</u>	<u>\$ 126,001,964</u>	<u>\$ 5,116,775</u>

Set-Aside Sub-Funds

2% Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2013	\$ 2,194,384	\$ 2,194,384	\$ -
2014	176,900	176,900	-
2015	175,740	175,740	-
2016	166,240	149,098	17,142
2017	164,820	70,494	94,326
Total	<u>\$ 2,878,084</u>	<u>\$ 2,766,616</u>	<u>\$ 111,468</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

**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	\$ -
1997-2013	4,920,221	4,920,221	-
2014	353,800	353,800	-
2015	351,480	351,480	-
2016	332,480	134,021	198,459
2017	329,640	73,321	256,319
Total	<u>\$ 7,009,483</u>	<u>\$ 6,554,705</u>	<u>\$ 454,778</u>

10% Program Management

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2013	\$ 12,218,012	\$ 12,218,012	\$ -
2014	884,500	884,500	-
2015	878,700	878,700	-
2016	831,200	791,676	39,524
2017	824,100	564,454	259,646
Total	<u>\$ 15,636,512</u>	<u>\$ 15,337,342</u>	<u>\$ 299,170</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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
1997-2013	\$ 13,436,180	\$ 13,436,180	\$ -
2014	1,326,750	1,326,750	-
2015	1,318,050	1,318,050	-
2016	1,246,800	1,232,033	14,767
2017	1,236,150	641,075	595,075
Total	<u>\$ 18,563,930</u>	<u>\$ 17,954,088</u>	<u>\$ 609,842</u>

Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2013	121,521,748	121,521,748	-
2014	8,845,000	8,845,000	-
2015	8,787,000	8,787,000	-
2016	8,312,000	8,042,108	269,892
2017	8,241,000	1,918,859	6,322,141
Total	<u>\$ 175,206,748</u>	<u>\$ 168,614,715</u>	<u>\$ 6,592,033</u>

Note 5 - Federal Grants Receivable

Grants receivable of \$177,598 and \$77,690, as of June 30, 2018 and 2017, 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. During 2018 and 2017, no additional funds were deobligated.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

In accordance with WPCRLF's Intended Use Plan (Plan), the \$32,460,212, described above 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 2018 or 2017.

Note 7 - Loans Receivable

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

	Loans Receivable	
	2018	2017
City of Harrington	\$ 503,346	\$ 519,945
Town of Frankford	445,066	449,164
Town of Bethany Beach	1,634,382	1,843,392
Town of Blades	439,738	472,825
Town of Milton	243,677	263,817
City of Wilmington	57,515,551	59,079,876
Town of Greenwood	976,612	1,024,054
Town of Dagsboro	778,748	834,266
Town of Millsboro	2,360,483	2,563,895
Town of Laurel*	2,649,439	3,886,286
Town of Smyrna	3,536,387	3,791,659
City of Lewes	101,453	102,800
Town of Clayton	502,916	543,786
Town of Bridgeville	1,002,539	1,055,717
City of Rehoboth Beach	2,881,876	3,143,839
City of Seaford	956,322	1,014,642
City of Dover	1,710,844	1,825,236
Town of Delmar*	622,988	378,435
Town of Middletown	1,346,687	1,425,037
City of Milford*	2,491,370	3,436,468
Town of Selbyville*	-	2,378,327
Town of Georgetown*	3,599,550	3,099,163
City of Delaware City	148,434	161,927
Less: Principal subsidization allowance	(3,572,065)	(7,705,665)
Total Municipal	\$ 82,876,343	\$ 85,588,891

*Subsidy allowed

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 7 - Loans Receivable (Continued)

	Loans Receivable	
	2018	2017
Investor-Owned		
Artesian Water Company	\$ 6,962,427	\$ 7,692,169
Tidewater Utilities, Inc.	7,669,453	8,288,046
J.H. Wilkerson & Son, Inc.	226,164	256,352
Southern Shores Water Co, LLC	1,057,391	1,122,635
Total Investor-Owned	15,915,435	17,359,202
Mobile Home park		
Innovative Construction	6,229	8,427
	98,798,007	102,956,520
Less: loans receivable - current portion	6,955,560	6,529,521
Loans Receivable - Net of Current Portion	\$ 91,842,447	\$ 96,426,999

Interest charged on these loans ranges from 0.00% to 4.48%. Interest earned on loans receivable was \$2,679,612 and \$2,794,439 for the years ended June 30, 2018 and 2017, 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.

Except for the principal subsidy allowance, there was no allowance for doubtful accounts as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2018 and 2017. There has been no history of significant bad debts or uncollectible accounts.

The Fund also issues loans eligible for subsidization through principal forgiveness from funds provided under EPA grants received by the Fund. These loans are to be deemed no longer outstanding after the last loan disbursement is forgiven per the terms of the loan agreement. Therefore, it is the Fund's policy to maintain an allowance for subsidization through principal forgiveness loans, equal to the amount of the disbursement, until the last disbursement is made to the recipient and the loan can be removed from the outstanding loans list.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 7 - Loans Receivable (Continued)

The allowance for subsidization as of June 30, 2018 and 2017 was \$3,572,065 and \$7,705,665, respectively.

Note 8 - State Match

During 2013, \$5,410,035 which represents the 20% state match of the \$27,050,177 deobligated federal capitalization grant) was transferred from the Fund to WPCRLF, see Note 6. As of June 30, 2018, the Fund had disbursed all State match funding as follows:

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2013 *	\$ 22,897,012	\$ 22,897,012	\$ -
2014	1,769,000	1,769,000	-
2015	1,757,400	1,757,400	-
2016	1,662,400	1,662,400	-
2017	1,648,200	1,648,200	-
Total	<u>\$ 29,734,012</u>	<u>\$ 29,734,012</u>	<u>\$ -</u>

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

Note 9 - Pension

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$218,746 for 2018 and \$222,963 for 2017 is included in salaries and related benefits. As of June 30, 2018, the Fund was not allocated any portion of the overall State of Delaware net pension liability.

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

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

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)

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 9 - Pension (Continued)

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.

Contributions - Employer - determined by Board of Pension Trustees based on the actuarially determined rate. Employer contributions were 9.6% of earnings for fiscal year 2018.

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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 9 - Pension (Continued)

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 10 - 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. As of June 30, 2018, the Fund was not allocated any portion of the State of Delaware net OPEB liability. Further information is available in the State's Comprehensive Annual Financial Report online at <https://auditor.delaware.gov/reports>.

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

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

Eligibility:

Early Retirement:

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

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

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

General Assembly:

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

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

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

Benefits:

During the fiscal year ended June 30, 2018, the State provided health insurance options through several providers.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 10 - Other Post-Employment Benefits (OPEB) (Continued)

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.

Note 11 - Commitments and Contingencies

A. Loans

The Fund has met its prior binding commitments (equal to at least 120% of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2018, there were \$11,052,227 in undisbursed loan proceeds for projects under construction. As of June 30, 2018, there were binding commitments of \$206,000.

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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

Note 12 - Risk Management

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

The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

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

At June 30, 2018, there were no outstanding or pending claims against the Fund.

Note 13 - Restatement

The Fund issues loans eligible for subsidization through principal forgiveness from funds provided under EPA grants received by the Fund. The subsidy to a borrower is set as a maximum of the loan proceeds disbursed at project completion. The subsidy could be up to 100% of the amount borrowed. In prior years, the Fund had not recorded an allowance for subsidies that would be provided at the completion of the project per the terms of the loan agreement.

The Fund loan balances should be shown net of the possible subsidy. As a result, the beginning net position and loans receivable as of July 1, 2016 are overstated by \$2,777,512. The June 30, 2017 subsidization through principal forgiveness was understated by \$4,928,153 and loans receivable were overstated by \$7,705,665.

Note 14 - Subsequent Events

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

Supplemental Information

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Sub-Fund
June 30, 2018

	<u>Loan Fund</u>	<u>2% Technical Assistance</u>	<u>4% Administration</u>	<u>10% Program Management</u>	<u>15% Local Assistance</u>	<u>Total</u>
Assets						
Current Assets						
Pooled cash and investments	\$ 54,727,784	\$ 19,065	\$ 3,245	\$ 20,992	\$ 11,575	\$ 54,782,661
Loans receivable	6,955,560	-	-	-	-	6,955,560
Interest receivable	668,223	-	-	-	-	668,223
Federal grants receivable	145,941	-	2,556	12,772	16,329	177,598
Total Current Assets	62,497,508	19,065	5,801	33,764	27,904	62,584,042
Noncurrent Assets						
Loans receivable	91,842,447	-	-	-	-	91,842,447
Total Noncurrent Assets	91,842,447	-	-	-	-	91,842,447
Total Assets	\$ 154,339,955	\$ 19,065	\$ 5,801	\$ 33,764	\$ 27,904	\$ 154,426,489
Liabilities						
Current Liabilities						
Vouchers payable	\$ 145,941	\$ 19,065	\$ 5,189	\$ 20,619	\$ 31,149	\$ 221,963
Due from other entities	64,693	-	-	-	-	64,693
Total Current Liabilities	210,634	19,065	5,189	20,619	31,149	286,656
Noncurrent Liabilities						
Unearned revenue - state match	-	-	-	-	-	-
Total Liabilities	210,634	19,065	5,189	20,619	31,149	286,656
Net Position						
Net Position - Unrestricted	154,129,321	-	612	13,145	(3,245)	154,139,833
Total Liabilities and Net Position	\$ 154,339,955	\$ 19,065	\$ 5,801	\$ 33,764	\$ 27,904	\$ 154,426,489

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

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
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	96,426,999	-	-	-	-	96,426,999
Total Noncurrent Assets	96,426,999	-	-	-	-	96,426,999
Total Assets	\$ 151,754,928	\$ 19,065	\$ 9,857	\$ 36,490	\$ 54,076	\$ 151,874,416
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, as adjusted	151,747,137	-	-	661	(3,229)	151,744,569
Total Liabilities and Net Position	\$ 151,754,928	\$ 19,065	\$ 9,857	\$ 36,490	\$ 54,076	\$ 151,874,416

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Sub-Fund
Year Ended June 30, 2018

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating Revenues						
Interest income - loans	\$ 1,339,758	\$ -	\$ -	\$ -	\$ -	\$ 1,339,758
Interest income - administrative fees	1,339,854	-	-	-	-	1,339,854
Loan origination fees	-	-	-	-	-	-
Total Operating Revenues	2,679,612	-	-	-	-	2,679,612
Operating Expenses						
Salaries and related benefits	130,491	-	115,376	563,973	764,533	1,574,373
Contract services	419,357	150,945	3,439	192,618	542,504	1,308,863
Grants	509,259	-	-	-	-	509,259
Indirect costs	87	-	9,192	73,684	100,082	183,045
Supplies	49,793	-	-	57,484	14,110	121,387
Training	-	-	-	141	161	302
Travel	1,636	-	-	-	3,579	5,215
Total Operating Expenses	1,110,623	150,945	128,007	887,900	1,424,969	3,702,444
Operating Income (Loss)	1,568,989	(150,945)	(128,007)	(887,900)	(1,424,969)	(1,022,832)
Nonoperating Revenues and Expenses						
Interest income - cash accounts	229,854	-	-	-	-	229,854
Grant revenue	2,048,269	150,945	128,619	900,384	1,424,953	4,653,170
Subsidization through principal forgiveness	(1,464,928)	-	-	-	-	(1,464,928)
State match	-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	813,195	150,945	128,619	900,384	1,424,953	3,418,096
Increase (Decrease) in Net Position	2,382,184	-	612	12,484	(16)	2,395,264
Net Position - Beginning of Year	151,747,137	-	-	661	(3,229)	151,744,569
Net Position - End of Year	\$ 154,129,321	\$ -	\$ 612	\$ 13,145	\$ (3,245)	\$ 154,139,833

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Sub-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
Subsidization through principal forgiveness	(7,253,335)	-	-	-	-	(7,253,335)
State match	172,734	-	-	-	-	172,734
Total Nonoperating Revenues	(1,726,259)	148,606	217,660	1,032,774	1,136,121	808,902
Increase (Decrease) in Net Position	401,692	-	-	661	(3,229)	399,124
Net Position - Beginning of Year, as adjusted	151,345,445	-	-	-	-	151,345,445
Net Position - End of Year	\$ 151,747,137	\$ -	\$ -	\$ 661	\$ (3,229)	\$ 151,744,569

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Classification
June 30, 2018 and 2017

	2018				2017			
	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	\$ 54,877	\$ 46,021,540	\$ 8,706,244	\$ 54,782,661	\$ 41,798	\$ 38,055,620	\$ 10,077,900	\$ 48,175,318
Loans receivable - current portion	-	6,955,560	-	6,955,560	-	6,529,521	-	6,529,521
Interest receivable	-	334,487	333,736	668,223	-	332,868	332,020	664,888
Due to/(from)	-	672,175	(672,175)	-	-	672,175	(672,175)	-
Federal grants receivable	31,657	145,941	-	177,598	77,690	-	-	77,690
Total Current Assets	86,534	54,129,703	8,367,805	62,584,042	119,488	45,590,184	9,737,745	55,447,417
Noncurrent Assets								
Loans receivable, net of current portion	-	91,842,447	-	91,842,447	-	96,426,999	-	96,426,999
Total Noncurrent Assets	-	91,842,447	-	91,842,447	-	96,426,999	-	96,426,999
Total Assets	\$ 86,534	\$ 145,972,150	\$ 8,367,805	\$ 154,426,489	\$ 119,488	\$ 142,017,183	\$ 9,737,745	\$ 151,874,416
Liabilities								
Current Liabilities								
Vouchers payable	\$ 76,022	\$ 145,941	\$ -	\$ 221,963	\$ 122,056	\$ -	\$ 7,791	\$ 129,847
Due from other entities	-	49,346	15,347	64,693	-	-	-	-
Total Current Liabilities	76,022	195,287	15,347	286,656	122,056	-	7,791	129,847
Long-Term Liabilities								
Unearned revenue - state match	-	-	-	-	-	-	-	-
Total Liabilities	76,022	195,287	15,347	286,656	122,056	-	7,791	129,847
Net Position								
Net Position - Unrestricted	10,512	145,776,863	8,352,458	154,139,833	(2,568)	142,017,183	9,729,954	151,744,569
Total Liabilities and Net Position	\$ 86,534	\$ 145,972,150	\$ 8,367,805	\$ 154,426,489	\$ 119,488	\$ 142,017,183	\$ 9,737,745	\$ 151,874,416

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Activities by Classification
Year Ended June 30, 2018 and 2017

	2018				2017			
	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	\$ -	\$ 1,339,758	\$ -	\$ 1,339,758	\$ -	\$ 1,414,160	\$ -	\$ 1,414,160
Interest income - administrative fees	-	-	1,339,854	1,339,854	-	-	1,380,279	1,380,279
Loan origination fees	-	-	-	-	-	-	1,118	1,118
Total Operating Revenues	-	1,339,758	1,339,854	2,679,612	-	1,414,160	1,381,397	2,795,557
Operating Expenses								
Salaries and related benefits	1,443,882	-	130,491	1,574,373	1,502,592	-	59,297	1,561,889
Contract services	889,506	-	419,357	1,308,863	682,708	-	334,037	1,016,745
Grants	-	-	509,259	509,259	-	-	274,258	274,258
Indirect costs	182,958	87	-	183,045	245,847	-	-	245,847
Supplies	71,594	-	49,793	121,387	94,480	-	-	94,480
Training	302	-	-	302	1,796	-	-	1,796
Travel	3,579	-	1,636	5,215	10,306	-	14	10,320
Total Operating Expenses	2,591,821	87	1,110,536	3,702,444	2,537,729	-	667,606	3,205,335
Operating Income (Loss)	(2,591,821)	1,339,671	229,318	(1,022,832)	(2,537,729)	1,414,160	713,791	(409,778)
Nonoperating Revenues and Expenses								
Interest income - cash accounts	-	188,468	41,386	229,854	-	339,792	97,564	437,356
Grant revenue	2,604,901	2,048,269	-	4,653,170	2,535,161	4,916,986	-	7,452,147
Subsidization through principal forgiveness	-	(1,464,928)	-	(1,464,928)	-	(7,253,335)	-	(7,253,335)
State match	-	-	-	-	-	172,734	-	172,734
Total Nonoperating Revenues (Expenses)	2,604,901	771,809	41,386	3,418,096	2,535,161	(1,823,823)	97,564	808,902
Transfers in (out)	-	1,648,200	(1,648,200)	-	-	1,662,400	(1,662,400)	-
Change in Net Position	13,080	3,759,680	(1,377,496)	2,395,264	(2,568)	1,252,737	(851,045)	399,124
Net Position - Beginning of Year, as adjusted	(2,568)	142,017,183	9,729,954	151,744,569	-	140,764,446	10,580,999	151,345,445
Net Position - End of Year	\$ 10,512	\$ 145,776,863	\$ 8,352,458	\$ 154,139,833	\$ (2,568)	\$ 142,017,183	\$ 9,729,954	\$ 151,744,569



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: Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund
89 Kings Highway
Dover, Delaware 19901

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, 2018, 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 March 19, 2019.

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.

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: Shawn M. Garvin, Secretary
Department of Natural Resources and Environmental Control
State of Delaware Drinking Water Revolving Loan Fund

material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as finding 2018-001, that we consider to be a significant deficiency.

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*.

State of Delaware Drinking Water Revolving Loan Fund's Corrective Action Plan

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

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.

March 19, 2019
Wilmington, Delaware

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
FINDING AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDING

Reference Number: 2018-001

Type of Finding: Significant Deficiency

Financial Reporting Process

Condition: During our audit work, we discovered the State of Delaware Drinking Water Revolving Loan Fund (the Fund) did not recognize an allowance for expected principal subsidy granted to certain borrowers, resulting in a material adjustment and a prior period adjustment.

Criteria: Strong internal control requires the adequate review of agreements entered by the Fund for the preparation of the Fund's financial statements in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) Codification, Section N50 - Nonexchange Transactions, requires the presentation of loans receivable at their net realizable value. As a result, the Fund is required to establish an allowance for expected principal subsidies.

Cause: The language in the loan agreements is open to interpretation. Management previously interpreted the loan subsidies as not taking effect for accounting purposes, at the inception of the loans.

Effect: The Fund's loan receivable balance was overstated by \$7,705,665 as of June 30, 2017.

Recommendation: We recommend that the Fund review all agreements entered and identify key provisions for accounting and financial reporting purposes.

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

**STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS

No prior year audit findings.

**DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENTAL CONTROL
OFFICE OF THE SECRETARY, ENVIRONMENTAL FINANCE
97 COMMERCE WAY, SUITE 106
DOVER, DELAWARE 19904**

**MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN
JUNE 30, 2018**

Reference Number: 2018-001

Type of Finding: Significant Deficiency

Financial Reporting Process

Responsible Person: Chief of Environmental Finance

Since 2010 the United States Environmental Protection Agency has authorized principal forgiveness and additional subsidization for the Drinking Water Revolving Loan Fund under the American Recovery and Reinvestment Act (ARRA) and annual Safe Drinking Water Capitalization Grant appropriations thereafter. The State of Delaware Drinking Water Program has committed \$23.8 million in principal forgiveness between 2011 and 2018.

In accordance with the terms of the loan agreements, all principal forgiveness is no longer considered outstanding after the project is complete, and historically the actual principal forgiveness was reported at project completion. The amount of outstanding principal forgiveness has increased as completion of construction projects have been prolonged in recent years.

As a result, Environmental Finance acknowledges the audit finding and recommendation. The Management's Discussion and Analysis references the federal authorization and the new Fund policy for reporting potential loan forgiveness. The financial statements of the Fund now recognize the amount of outstanding subsidies as an allowance impacting the Fund's net position.

As part of the standard year-end close process, the Fund's Accountant and Fiscal Management Analyst together will review current and new finance agreements to identify terms for principal forgiveness and other key provisions which may have accounting and financial reporting implications.