

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

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**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  
Delaware Water Pollution Control Revolving Loan Fund  
89 Kings Highway  
Dover, Delaware 19901

We have audited the accompanying financial statements of Delaware Water Pollution Control 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*, 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.

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

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, 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.

***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, 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 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 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  
Delaware Water Pollution Control Revolving Loan Fund

*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 statements of net position on page 9 and the statements of revenues, expenses and changes in net position on page 10 as of and for the years ended June 30, 2018 and 2017, together referred to as supplemental information 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 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.*

March 19, 2019  
Wilmington, Delaware

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

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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 year ended June 30, 2018 (fiscal year 2018).

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**

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 2018, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$6,474,000 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2018, DNREC has received Federal Capitalization Grants in an aggregate amount of \$239,173,510 since the inception of the Fund. As of June 30, 2018, the State of Delaware has provided State match funds of \$43,986,884 since the inception of the Fund. The combined total capitalization amount at June 30, 2018 was \$283,160,394 since the inception of the Fund.

The Fund realized operating income of \$680,548 in fiscal year 2018, which represents a decrease of \$486,226, from the fiscal year ended June 30, 2017 (fiscal year 2017). Contributions from the federal and State governments totaled \$7,768,800 in fiscal year 2018, a 33% decrease from fiscal year 2017.

Operating revenues for fiscal year 2018 (including interest income on loans) decreased \$229,441 or 6% from the previous year. Operating revenues for fiscal year 2017 (including interest income on loans) increased \$196,914 or 5% from the previous fiscal year.

Loans and lease disbursements made totaled \$47,931,100 during the fiscal year 2018, which represents an increase of \$26,646,187 or 125% from fiscal year 2017. The increase in loan disbursements from fiscal year 2017 to fiscal year 2018 is primarily due to three loans. Loans collections totaled \$13,003,939 during fiscal year 2018 which represents an increase of \$1,656,885 or 14% from fiscal year 2017.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2018 and 2017**

**Statement of Net Position**

The following schedule summarizes the statements of net position (thousands of dollars) of the Fund as of June 30, 2018, 2017 and 2016:

|   | June 30,  |            |            |
|---|-----------|------------|------------|
|   | 2018      | 2017       | 2016       |
| Current assets                          |           |            |            |
| Pooled cash and investments             | \$ 88,526 | \$ 114,431 | \$ 108,749 |
| Grants receivable                       | -         | -          | 2,517      |
| Administrative fees receivable          | 318       | 334        | 274        |
| Interfund receivable                    | 621       | 1,695      | 562        |
| Due from other entities                 | 120       | 71         | 166        |
| Interest receivable                     | 342       | 399        | 332        |
| Leases receivable, current              | 15        | 1,134      | -          |
| Loans receivable, current               | 11,473    | 11,287     | 9,942      |
| Total current assets                    | 101,415   | 129,351    | 122,542    |
| Noncurrent assets                       |           |            |            |
| Leases receivable, less current portion | 6,900     | 6,479      | 5,026      |
| Loans receivable, less current portion  | 197,465   | 162,529    | 158,000    |
| Total noncurrent assets                 | 204,365   | 169,008    | 163,026    |
| Total assets                            | \$305,780 | \$ 298,359 | \$285,568  |
| Current liabilities                     |           |            |            |
| Vouchers payable                        | \$ 48     | \$ 534     | \$ 1,310   |
| Unearned state match                    | -         | -          | 788        |
| Interfund payable                       | 621       | 1,695      | 562        |
| Total liabilities                       | 669       | 2,229      | 2,660      |
| Net position - unrestricted             | 305,111   | 296,130    | 282,908    |
| Total liabilities and net position      | \$305,780 | \$ 298,359 | \$285,568  |

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2018 and 2017**

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**Statement of Net Position - Continued**

The combined total net position of the Fund for the fiscal year ended June 30, 2018 increased by \$8,980,918 from fiscal year 2017, which increased by \$13,221,445 from the fiscal year ended June 30, 2016 (fiscal year 2016).

Pooled cash and investments decreased \$25,905,021 or 23% to \$88,525,870 during fiscal year 2018, as a function of loan disbursements.

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.

There was no unearned income from the State during fiscal year 2018.

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.

**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 2018, 2017 and 2016:

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2018 and 2017**

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

|   | June 30,         |                   |                  |
|---|------------------|-------------------|------------------|
|   | 2018             | 2017              | 2016             |
| Operating revenues                                |                  |                   |                  |
| Interest income on loans                          | \$ 1,670         | \$ 1,933          | \$ 1,926         |
| Administrative fee revenue                        | 1,977            | 1,991             | 1,823            |
| Application fees                                  | 15               | 22                | 1                |
| Other income                                      | 56               | 1                 | 1                |
| Total operating revenues                          | <u>3,718</u>     | <u>3,947</u>      | <u>3,751</u>     |
| Operating expenses                                |                  |                   |                  |
| Reimbursable expenditures under operating grants: |                  |                   |                  |
| Personnel costs                                   | 1,238            | 1,299             | 1,239            |
| Travel  | 6                | 5                 | 10               |
| Contractual services                              | 236              | 257               | 344              |
| Supplies  | 104              | 16                | 10               |
| Other expenses                                    | 8                | 61                | 45               |
| Grants made                                       | 1,445            | 1,142             | 1,107            |
| Total operating expenses                          | <u>3,037</u>     | <u>2,780</u>      | <u>2,755</u>     |
| Operating income                                  | <u>681</u>       | <u>1,167</u>      | <u>996</u>       |
| Nonoperating revenues (expenses)                  |                  |                   |                  |
| Interest income on deposits                       | 545              | 1,159             | 637              |
| Contributions, EPA                                | 6,474            | 10,065            | 12,834           |
| Contributions, State                              | 1,295            | 1,488             | 2,567            |
| Loan forgiveness and write-offs                   | (14)             | (657)             | (844)            |
| Total nonoperating revenues                       | <u>8,300</u>     | <u>12,055</u>     | <u>15,194</u>    |
| Change in net position                            | 8,981            | 13,222            | 16,190           |
| Net position - beginning                          | <u>296,130</u>   | <u>282,908</u>    | <u>266,718</u>   |
| Net position - ending                             | <u>\$305,111</u> | <u>\$ 296,130</u> | <u>\$282,908</u> |

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2018 and 2017**

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

The Fund reported operating revenues of \$3,718,050 during fiscal year 2018, which represents a decrease of \$229,441 or 6% from fiscal year 2017. 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. Due to the timing of new loan disbursements and the repayments of existing loans, income from interest and administrative fees decreased. Borrowers are required to pay interest and administrative fees on funds disbursed during construction as well as throughout the life of the loan. The Fund reported an overall increase of \$8,980,918 in total net position for fiscal year 2018, and an overall increase of \$13,221,445 in total net position for fiscal year 2017.

Federal grant revenue decreased by \$3,591,231 or 36% during fiscal year 2018, while the State match decreased by \$193,263, or 13%.

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%.

Total operating expenses increased \$256,785 or 9% during fiscal 2018, due to an increase in grants made out of the Nonfederal Administrative Fund. Total operating expenses increased \$25,638 or 1% during fiscal 2017, due to an increase in grants made out of the Nonfederal Administrative Fund.

During fiscal year 2018, the Fund recognized nonoperating expenses \$14,170 for loan forgiveness and write-offs compared to \$657,264 in fiscal year 2017.

**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, 2018 and 2017**

|  | 2018                              |                                 |                                      |                | 2017                              |                                 |                                      |                |
|--|-----------------------------------|---------------------------------|--------------------------------------|----------------|-----------------------------------|---------------------------------|--------------------------------------|----------------|
|  | Federal<br>Administrative<br>Fund | Capital<br>Reserve<br>Loan Fund | Nonfederal<br>Administrative<br>Fund | Total          | Federal<br>Administrative<br>Fund | Capital<br>Reserve<br>Loan Fund | Nonfederal<br>Administrative<br>Fund | Total          |
| <b>Current assets</b>                      |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Pooled cash and investments                | \$ -                              | \$ 82,919,412                   | \$ 5,606,458                         | \$ 88,525,870  | \$ 309,303                        | \$ 109,167,898                  | \$ 4,953,690                         | \$ 114,430,891 |
| Administrative fees receivable             | -                                 | -                               | 318,249                              | 318,249        | -                                 | -                               | 334,266                              | 334,266        |
| Interfund receivable                       | -                                 | -                               | 620,896                              | 620,896        | -                                 | -                               | 1,694,619                            | 1,694,619      |
| Due from other entities                    | -                                 | 49,346                          | 70,646                               | 119,992        | -                                 | -                               | 70,646                               | 70,646         |
| Interest receivable                        | -                                 | 341,749                         | -                                    | 341,749        | -                                 | 399,131                         | -                                    | 399,131        |
| Leases receivable - current                | -                                 | 15,839                          | -                                    | 15,839         | -                                 | 1,134,012                       | -                                    | 1,134,012      |
| Loans receivable - current                 | -                                 | 11,472,642                      | -                                    | 11,472,642     | -                                 | 11,286,696                      | -                                    | 11,286,696     |
| Total current assets                       | -                                 | 94,798,988                      | 6,616,249                            | 101,415,237    | 309,303                           | 121,987,737                     | 7,053,221                            | 129,350,261    |
| <b>Noncurrent assets</b>                   |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Leases receivable, less<br>current portion | -                                 | 6,899,471                       | -                                    | 6,899,471      | -                                 | 6,479,219                       | -                                    | 6,479,219      |
| Loans receivable, less<br>current portion  | -                                 | 197,464,988                     | -                                    | 197,464,988    | -                                 | 162,529,080                     | -                                    | 162,529,080    |
| Total noncurrent assets                    | -                                 | 204,364,459                     | -                                    | 204,364,459    | -                                 | 169,008,299                     | -                                    | 169,008,299    |
| Total assets                               | \$ -                              | \$ 299,163,447                  | \$ 6,616,249                         | \$ 305,779,696 | \$ 309,303                        | \$ 290,996,036                  | \$ 7,053,221                         | \$ 298,358,560 |
| <b>Current liabilities</b>                 |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Vouchers payable                           | \$ -                              | \$ 39,200                       | \$ -                                 | \$ 39,200      | \$ -                              | \$ 489,059                      | \$ -                                 | \$ 489,059     |
| Accrued payroll                            | -                                 | -                               | 9,071                                | 9,071          | -                                 | -                               | 45,271                               | 45,271         |
| Interfund payable                          | -                                 | 620,896                         | -                                    | 620,896        | 309,303                           | 1,385,316                       | -                                    | 1,694,619      |
| Total liabilities                          | -                                 | 660,096                         | 9,071                                | 669,167        | 309,303                           | 1,874,375                       | 45,271                               | 2,228,949      |
| Net position-unrestricted                  | -                                 | 298,503,351                     | 6,607,178                            | 305,110,529    | -                                 | 289,121,661                     | 7,007,950                            | 296,129,611    |
| Total liabilities and<br>net position      | \$ -                              | \$ 299,163,447                  | \$ 6,616,249                         | \$ 305,779,696 | \$ 309,303                        | \$ 290,996,036                  | \$ 7,053,221                         | \$ 298,358,560 |

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**  
**Year Ended June 30, 2018 and 2017**

|   | 2018                              |                                 |                                      |                | 2017                              |                                 |                                      |                |
|---|-----------------------------------|---------------------------------|--------------------------------------|----------------|-----------------------------------|---------------------------------|--------------------------------------|----------------|
|   | Federal<br>Administrative<br>Fund | Capital<br>Reserve<br>Loan Fund | Nonfederal<br>Administrative<br>Fund | Total          | Federal<br>Administrative<br>Fund | Capital<br>Reserve<br>Loan Fund | Nonfederal<br>Administrative<br>Fund | Total          |
| Operating revenues                                |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Interest income on loans                          | \$ -                              | \$ 1,670,196                    | \$ -                                 | \$ 1,670,196   | \$ -                              | \$ 1,932,672                    | \$ -                                 | \$ 1,932,672   |
| Administrative fee revenue                        | -                                 | -                               | 1,977,167                            | 1,977,167      | -                                 | -                               | 1,991,005                            | 1,991,005      |
| Application fees                                  | -                                 | 14,718                          | -                                    | 14,718         | -                                 | 1,049                           | 21,764                               | 22,813         |
| Other income                                      | -                                 | 1,534                           | 54,435                               | 55,969         | -                                 | 1,001                           | -                                    | 1,001          |
| Total operating revenues                          | -                                 | 1,686,448                       | 2,031,602                            | 3,718,050      | -                                 | 1,934,722                       | 2,012,769                            | 3,947,491      |
| Operating expenses                                |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Reimbursable expenditures under operating grants: |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Personnel costs                                   | 578,243                           | -                               | 659,847                              | 1,238,090      | 315,559                           | -                               | 983,834                              | 1,299,393      |
| Travel  | -                                 | -                               | 5,718                                | 5,718          | 5,107                             | -                               | -                                    | 5,107          |
| Contractual services                              | -                                 | 876                             | 235,533                              | 236,409        | 153,455                           | 8,819                           | 94,852                               | 257,126        |
| Supplies and office expenses                      | -                                 | -                               | 104,358                              | 104,358        | 16,044                            | -                               | -                                    | 16,044         |
| Other expenses                                    | -                                 | 4,525                           | 3,503                                | 8,028          | 60,309                            | 289                             | -                                    | 60,598         |
| Grants made                                       | -                                 | -                               | 1,444,899                            | 1,444,899      | -                                 | -                               | 1,142,449                            | 1,142,449      |
| Total operating expenses                          | 578,243                           | 5,401                           | 2,453,858                            | 3,037,502      | 550,474                           | 9,108                           | 2,221,135                            | 2,780,717      |
| Operating income (loss)                           | (578,243)                         | 1,681,047                       | (422,256)                            | 680,548        | (550,474)                         | 1,925,614                       | (208,366)                            | 1,166,774      |
| Nonoperating revenues and expenses                |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| Interest income on deposits                       | -                                 | 524,256                         | 21,484                               | 545,740        | -                                 | 1,104,777                       | 53,864                               | 1,158,641      |
| Contributions:                                    |                                   |                                 |                                      |                |                                   |                                 |                                      |                |
| EPA   | -                                 | 6,474,000                       | -                                    | 6,474,000      | -                                 | 10,065,231                      | -                                    | 10,065,231     |
| State   | -                                 | 1,294,800                       | -                                    | 1,294,800      | -                                 | 1,488,063                       | -                                    | 1,488,063      |
| Loan forgiveness and write-offs                   | -                                 | (14,170)                        | -                                    | (14,170)       | -                                 | (657,264)                       | -                                    | (657,264)      |
| Total nonoperating revenues and expenses          | -                                 | 8,278,886                       | 21,484                               | 8,300,370      | -                                 | 12,000,807                      | 53,864                               | 12,054,671     |
| Transfers in                                      | 578,243                           | -                               | -                                    | 578,243        | 550,474                           | 508,317                         | 583,651                              | 1,642,442      |
| Transfers out                                     | -                                 | (578,243)                       | -                                    | (578,243)      | -                                 | (1,134,125)                     | (508,317)                            | (1,642,442)    |
| Change in net position                            | -                                 | 9,381,690                       | (400,772)                            | 8,980,918      | -                                 | 13,300,613                      | (79,168)                             | 13,221,445     |
| Net position - beginning - unrestricted           | -                                 | 289,121,661                     | 7,007,950                            | 296,129,611    | -                                 | 275,821,048                     | 7,087,118                            | 282,908,166    |
| Net position - end - unrestricted                 | \$ -                              | \$ 298,503,351                  | \$ 6,607,178                         | \$ 305,110,529 | \$ -                              | \$ 289,121,661                  | \$ 7,007,950                         | \$ 296,129,611 |

See accompanying notes to financial statements.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Statements of Cash Flows**  
**Year Ended June 30, 2018 and 2017**

|   | <b>2018</b>     | <b>2017</b>    |
|---|-----------------|----------------|
| Cash flows from operating activities  |                 |                |
| Loan and lease collections  | \$ 13,003,939   | \$ 11,347,054  |
| Interest received from borrowers  | 1,727,578       | 1,865,641      |
| Administrative fee revenue  | 1,993,184       | 1,930,342      |
| Application fees and other revenue  | 70,687          | 23,814         |
| Loan and lease disbursements  | (47,931,100)    | (21,284,913)   |
| General expenses paid   | (3,083,849)     | (2,640,025)    |
| Net cash used in operating activities   | (34,219,561)    | (8,758,087)    |
| Cash flows from noncapital financing activities   |                 |                |
| Grants received from EPA  | 6,474,000       | 12,582,224     |
| State portion funded by recipient   | 1,294,800       | 700,000        |
| Net cash provided by noncapital financing activities  | 7,768,800       | 13,282,224     |
| Cash flows from investing activities  |                 |                |
| Interest on deposits  | 545,740         | 1,158,641      |
| Net increase (decrease) in pooled cash and investments  | (25,905,021)    | 5,682,778      |
| Pooled cash and investments - beginning of year   | 114,430,891     | 108,748,113    |
| Pooled cash and investments - end of year   | \$ 88,525,870   | \$ 114,430,891 |
| Reconciliation of net operating income to cash used in operating activities:                      |                 |                |
| Cash flows from operating activities:   |                 |                |
| Operating income  | \$ 680,548      | \$ 1,166,774   |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: |                 |                |
| Administrative fees receivable  | 16,017          | (60,663)       |
| Interest receivable   | 57,382          | (67,031)       |
| Loans receivable  | (35,136,024)    | (6,530,137)    |
| Leases receivable   | 697,921         | (2,586,882)    |
| Due from Other Entities   | (49,346)        | 95,421         |
| Accrued payroll   | (36,200)        | 45,271         |
| Vouchers payable  | (449,859)       | (820,840)      |
| Net cash used in operating activities   | \$ (34,219,561) | \$ (8,758,087) |
| Schedule of noncash investing activities  |                 |                |
| Loan forgiveness and write-offs   | \$ (14,170)     | \$ (657,264)   |

See accompanying notes to financial statements.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**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 Clean Water State Revolving Funds (CFDA #66.458) (SRF) federal assistance program. The Fund's enabling legislation empowers the Environmental Control (DNREC) to administer the Fund. The federal capitalization grants require the State to provide matching funds equal to 20% of the federal funds received.

**2. 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.

**3. 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;

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

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**Note A - Summary of Significant Accounting Policies - Continued**

**3. Type of Entity and Division of Funds - Continued**

- 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.

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

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

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

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Fund. Operating revenues consist primarily of interest on loans receivable, and loan administration fees. Non-operating revenues and expenses consist of federal and state grants and those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions, such as investment income/loss.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

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**Note A - Summary of Significant Accounting Policies - Continued**

**5. Recognition of Revenues**

As of July 1, 2017, federal assistance provided by the Capitalization Grants for the SRF program 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 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.

Prior to July 1, 2017, federal assistance was earned when qualified expenditures were incurred by the borrowers and the Fund. Matching funds provided by the State were considered earned under the same criteria.

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.

**6. 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.

**7. 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, 2018 and 2017**

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**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, 2018 and 2017**

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**Note B - Pooled Cash and Investments - Continued**

***Collateralization Requirements - 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, 2018 and 2017**

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**Note C - Loans Receivable**

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

|  | <u>2018</u>           | <u>2017</u>           |
|--|-----------------------|-----------------------|
| Municipal loans                        |                       |                       |
| Sussex County                          | \$ 41,559,679         | \$ 41,281,103         |
| City of Wilmington                     | 39,738,633            | 39,546,569            |
| City of Seaford                        | 4,308,412             | 5,387,480             |
| Kent County                            | 17,181,958            | 18,558,117            |
| City of Milford                        | 697,872               | 748,852               |
| New Castle County                      | 6,551,992             | 2,087,141             |
| Town of Selbyville                     | 1,377,070             | 1,551,394             |
| Town of Laurel                         | 2,469,941             | 1,863,936             |
| City of Dover                          | 4,806,554             | 5,150,851             |
| Camden Wyoming Sewer & Water Authority | 72,232                | 105,578               |
| Town of Millsboro                      | 13,927,063            | 14,586,917            |
| Town of Bridgeville                    | 3,456,774             | 3,667,060             |
| City of Lewes                          | 8,152,074             | 8,837,772             |
| Town of Delmar                         | 871,704               | 934,658               |
| Town of Georgetown                     | 2,512,306             | 2,778,661             |
| City of Harrington                     | 3,815,464             | 4,014,428             |
| Dewey Beach                            | 175,762               | 223,773               |
| Town of Middletown                     | 186,641               | 231,025               |
| Town of Smyrna                         | 6,282,434             | 6,587,730             |
| City of Rehoboth Beach                 | 36,092,621            | 336,843               |
| Town of Harbeson                       | 6,319,502             | 6,522,323             |
| Total municipal loans                  | <u>\$ 200,556,688</u> | <u>\$ 165,002,211</u> |

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

**Note C - Loans Receivable - Continued**

|                                   | <u>2018</u>           | <u>2017</u>           |
|-----------------------------------|-----------------------|-----------------------|
| ARRA loans                        |                       |                       |
| Sussex County Council             | \$ 4,965,503          | \$ 5,290,421          |
| Kent County                       | <u>594,118</u>        | <u>635,567</u>        |
| Total ARRA loans                  | <u>5,559,621</u>      | <u>5,925,988</u>      |
| Septic Rehabilitation Program     | 2,784,868             | 2,842,538             |
| Agriculture Nonpoint Source Loans | 33,903                | 35,824                |
| Dairy Loan Program                | 2,550                 | 5,821                 |
| Expanded Agriculture Loan Program | <u>-</u>              | <u>3,394</u>          |
| Total loans                       | <u>\$ 208,937,630</u> | <u>\$ 173,815,776</u> |
| Current portion                   | \$ 11,472,642         | \$ 11,286,696         |
| Long-term portion                 | <u>197,464,988</u>    | <u>162,529,080</u>    |
| Total loans                       | <u>\$ 208,937,630</u> | <u>\$ 173,815,776</u> |

Interest charged on these loans ranges from 0% to 6.0% for both fiscal year 2018 and 2017. 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 \$276,936 for fiscal year 2018 and \$262,766 for fiscal year 2017 for accounts in collection. During fiscal year 2018 and 2017, 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 2018 and 2017 were \$14,170 and \$657,264, respectively.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

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**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 \$6,915,310 and \$7,613,231 as of June 30, 2018 and 2017, 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 2018 and 2017, the Fund disbursed \$581,380 and \$3,772,854 under lease agreements, respectively. During fiscal years 2018 and 2017, the Fund collected \$1,279,301 and \$1,000,000, 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:

|                 |                            |
|-----------------|----------------------------|
| 2019            | \$ 15,839                  |
| 2020            | 281,016                    |
| 2021            | 286,481                    |
| 2022            | 292,240                    |
| 2023            | 298,115                    |
| 2024 and beyond | <u>5,741,619</u>           |
|                 | <u><u>\$ 6,915,310</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, 2018) were \$283,160,394, which includes the federal portion of \$239,173,510, or five-sixths, and the State matching portion of \$43,986,884, or one-sixth.

According to federal program guidelines, the Fund may spend up to one-fifth of the prior year’s Net Capital Reserve Loan 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, 2018 and 2017**

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

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

|  | <u>Federal</u> | <u>State</u>  | <u>Total</u>   |
|--|----------------|---------------|----------------|
| Awards made through June 30, 2018        | \$ 239,173,510 | \$ 43,986,884 | \$ 283,160,394 |
| Awards expended through<br>June 30, 2018 | \$ 239,173,188 | \$ 42,879,248 | \$ 282,052,436 |

**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 \$166,040 for fiscal year 2018 and \$102,917 for fiscal year 2017, 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, 2018 and 2017**

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**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 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.

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

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**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](http://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. As of June 30, 2018, the Fund was not allocated any portion of the overall 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

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

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

Eligibility - Continued:

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.

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, 2018 and 2017**

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**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 was on a month to month basis through February, 2018. In February, 2018, DNREC entered into an annual lease with options to renew annually for ten years. Rent expense, which is included in the financial statements as contractual services, was \$49,943 and \$43,507 in fiscal year 2018 and 2017, 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, 2018, there were \$36,227,654 in undisbursed loan proceeds for projects under construction. There was also binding loan commitments of \$36,190,251.

**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, 2018 and 2017**

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**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, 2018, 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 2018 and 2017, the Fund forgave \$0 in ARRA loans.

**Note L - 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, 2018, the Nonfederal Administrative Fund funded the following:

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Notes to Financial Statements - Continued**  
**June 30, 2018 and 2017**

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**Note L - Nonfederal Administrative Fund - Continued**

|   |                            |
|---|----------------------------|
| SEFO grants                                   | \$ 404,831                 |
| Wastewater matching planning grants           | 473,348                    |
| DNREC other program matching planning grants  | 566,720                    |
| Personnel costs for other water quality areas | <u>-</u>                   |
| Total   | <u><u>\$ 1,444,899</u></u> |

**Note M - 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.



***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  
Delaware Water Pollution Control Revolving Loan Fund  
89 Kings Highway  
Dover, DE 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 Delaware Water Pollution Control 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 Delaware Water Pollution Control 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

***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*.

***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

**DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND  
FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENT FINDING**

No current year findings.

**DELAWARE WATER POLLUTION CONTROL REVOLVING LOAN FUND**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**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.

**Current Status:** Similar findings were not noted during the June 30, 2018 audit.