State of Delaware
Department of Natural Resources and Environmental Control
Hazardous Substance Cleanup Fund

Financial Statements – Modified Cash Basis

For the Year Ended June 30, 2020

State of Delaware
Department of Natural Resources and Environmental Control
Hazardous Substance Cleanup Fund
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For the Year Ended June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Management of the State of Delaware Hazardous Substance Cleanup Fund
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Department of Natural Resources and Environmental Control Hazardous Substance Cleanup Fund of the State of Delaware (the "Fund"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note B to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 auditor's 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Fund as of June 30, 2020, and the modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Department of Natural Resources and Environmental Control Hazardous Substance Cleanup Fund and do not purport to, and do not present fairly the financial position of the State of Delaware, as of June 30, 2020, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note I to the financial statements, the current COVID-19 pandemic may have a significant impact on operations of the Fund. Management has determined that it is not possible to predict the eventual outcome of the pandemic on operations of the fund. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of revenues, expenditure, and change in fund balance by account – modified cash basis is presented for purposes of additional analysis is not a required part of the basic financial statements.

The schedule of revenues, expenditure, and change in fund balance by account – modified cash basis 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 schedule of revenues, expenditure, and change in fund balance by account – modified cash basis 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 December 23, 2020, on our consideration of the 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 Fund's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

Harrisburg, Pennsylvania
December 23, 2020

ZELENKOFSKE AXELROD LLC

State of Delaware
Department of Natural Resources and Environmental Control
Hazardous Substance Cleanup Fund
Balance Sheet - Modified Cash Basis
June 30, 2020

ASSETS	
CURRENT ASSETS	
Pooled cash	$ 21,229,071
FUND BALANCE	
Restricted by enabling legislation	$ 21,229,071

The accompanying notes are an integral part of the financial statements.

State of Delaware
Department of Natural Resources and Environmental Control
Hazardous Substance Cleanup Fund
Statement of Revenues, Expenditure, and Change in Fund Balance - Modified Cash Basis
For the Year Ended June 30, 2020

REVENUES		
Tax assessments	$	14,889,677
Cost recovery		435,482
Voluntary cleanup		123,930
Interest		542,456
Other		264,522
TOTAL REVENUES		16,256,067
EXPENDITURE		
Cleanup program		13,091,288
NET CHANGE IN FUND BALANCE		3,164,779
FUND BALANCE - BEGINNING OF YEAR		18,064,292
FUND BALANCE - END OF YEAR	$	21,229,071

The accompanying notes are an integral part of the financial statements.

NOTE A - SUMMARY OF OPERATIONS

In July of 1990, the State of Delaware (the State) legislature passed, and the Governor signed, legislation establishing the State's "Hazardous Substance Cleanup Act" (HSCA)(the Act). This Act establishes standards to be followed to protect the public health and welfare of citizens and the environment of the State from releases of hazardous substances. The Act also provides a funding mechanism for the program.

The responsibility for administering the Act was vested in the Division of Air and Waste Management (the Division) within the Department of Natural Resources and Environmental Control (DNREC). Two branches were created within the Division: the Superfund Branch and the Underground Storage Tank Branch, which together make up the Hazardous Substance Cleanup Fund (the Fund). Both branches are funded primarily by a surtax on certain petroleum products sold in the State.

The State's Superfund Branch supplements the federal government's efforts in cleaning up hazardous sites. The most serious sites in the State become the responsibility of the Federal Government while those that meet lesser criteria become the responsibility of the State.

The Fund's activities are accounted for as a distinct operating unit within the Division. Accordingly, the financial statements of the Fund are intended to present only the transactions related to pooled cash, and the related revenues and expenditures of only that portion of the funds of the State that are attributable to the transactions of the Fund.

The Fund is divided into four subfunds: The "Cleanup Fund" for the remediation activities of the Fund and the collection of tax assessments and other revenues, the "Administrative Account" for the administrative activities of the Fund as well as the cost recovery program, the "Voluntary Cleanup Program" for the oversight of voluntary cleanup efforts, and the "Brownfields Development Program" for the cleanup and redevelopment of vacant, abandoned or underutilized properties which may be contaminated. Funds are collected and deposited directly into the appropriate subfund where they sit until cash disbursements are made.

These financial statements present only the revenues, expenditures, and pooled cash balance of the Fund, which includes appropriation 20148, hold appropriations 30078 and 30087, revenue appropriations 77801, 77802, 77803, 78701, and spend appropriations 67801, 67802, 67803 and 68700 and are not intended to present the financial position and results of operations of the State taken as a whole. As discussed in Note B, these financial statements were prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Government Accounting Standards Board (GASB) pronouncements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Fund's financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, the only asset recognized is pooled cash, no liabilities are recognized. Consequently, revenues from all sources are recognized when received, rather than when earned; and expenditures are recognized when pooled cash is disbursed, rather than when the obligation is incurred.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

The statement of revenues, expenditure, and change in fund balance present sources and uses of available spendable financial resources during a given period and use fund balance as the measure of available spendable financial resources at the end of the period.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenditures are not recorded in these financial statements.

Fund Balance

In the financial statements, fund balance is classified as follows:

a. Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
b. Restricted – Amounts that can be spent only for specific purposes because of the Delaware Code, state or federal laws, or externally imposed conditions by grantors or creditors.
c. Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature, the State's highest level of decision-making authority. Formal action is the passage of law by the legislature, or other parties named by the State's legislature, creating, modifying, or rescinding an appropriation.
d. Assigned – Amounts that are constrained by the Fund's intent to be used for a specific purpose. Intent can be expressed by the Secretary of DNREC or by an official or body to which the Secretary delegates the authority.
e. Unassigned – All amounts not included in other spendable classifications.

All fund balance is restricted per enabling legislation.

When an expenditure is incurred for which either restricted or unrestricted resources can be used, the Fund's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

NOTE C - POOLED CASH

Pooled Cash - State Treasurer's Pool

Pooled cash, as reported on the balance sheet, represent 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 deposits and investments are part of the State's pooled deposits and investments maintained by the Treasurer, the required disclosures related to risks are included in the Delaware Comprehensive Annual Financial Report.

NOTE C - POOLED CASH – CONTINUED

The Cash Management Policy Board

The State's policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to the investment of all money belonging to the State except money in any State pension fund and money held under the State deferred compensation program.

Investment Guidelines and Management

The investment guidelines adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements

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

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 that 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 D - REVENUES

The Fund's primary source of revenues come from the levy of a tax on all taxable gross receipts from the sale of petroleum and petroleum products, with the exception of crude oil. The tax levy was 1.5244% with regard to gross receipts received before January 1, 2020. Beginning January 1, 2020, the tax levy is 1.0429%

NOTE D – REVENUES – CONTINUED

After December 31, 2018, legislation ties HSCA funding to a median benchmark and authorizes the Division of Revenue to adjust the tax rate up or down for the following year. The HSCA tax rate is capped at 1.675% and allows the lowest rate to drop to .675%. Annually, an amount is set aside for the Brownfields Grant Program, equal to one-third of the amount deposited in that year into the Fund under 7 Del. C. §9113.

Although funding is adequate to meet DNREC's annual expenditure plans and carryover funds exist, the cost of the future cleanup of orphaned sites exceeds the money available in the Fund.

NOTE E - COMMITMENTS

DNREC has identified over 2,694 sites in Delaware as potential hazardous substance release sites, some of which have been assigned a higher priority (identified as posing a risk to public health, welfare, and/or the environment). These sites are being addressed either under HSCA or under the Federal Superfund Program (National Priority List), with work complete at many of the sites. Additionally, since the inception of Delaware's Voluntary Cleanup Program (begun in 1993) and the Brownfields Program (begun in 1995), 533 sites have entered the program; 568 sites are currently undergoing cleanup; and 2,126 sites have been cleaned up for reuse. The cost of cleaning up the remaining sites exceeds the money available to the Fund.

HSCA also funded 388 incidents under the Emergency Response and Prevention Section. The Tank Management Section had 183 active sites and completed remedial activities at 1,070 sites.

NOTE F - LEASES

On December 19, 2019, the Fund signed an amendment to an original lease dated January 23, 1998, for a cancelable month to month operating lease agreement for office space located at 391 Lukens Drive, Riveredge Industrial Park, New Castle, Delaware. The amendment to the original lease commenced on February 1, 2020, and is effective through January 31, 2021, cancelable by either party to the lease with a 90 day notification. The total lease expense for the Fund for the year ended June 30, 2020 under this lease was $385,168.

Future minimum lease payments under cancelable operating leases as of June 30, 2020, for the Fund are as follows for the years ending June 30:

2021	$ 224,681

NOTE G - EMPLOYEE BENEFITS

Employees of the Fund are considered employees of the State and are covered by pension, health insurance, and other employee benefit programs administered by the State.

The Fund contributes monthly to the State Employees' Pension Plan (the Pension Plan), as required by State statutes. Total pension payments of $444,917 on total wages of $1,956,051 are included in the financial statements, which is equal to the required contribution. The 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. The State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions.

NOTE G - EMPLOYEE BENEFITS - CONTINUED

Certain significant Pension Plan provisions follow:

1. Retirement - Individuals hired prior to January 1, 2012, age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Individuals hired on or after January 1, 2012, age 65 with 10 years of credited service; age 60 with 20 years of credited service; or after 30 years of credited service at any age.
2. 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.
3. Disability Benefits – Pre-2012 date of hire: Same as Service Benefits. Employee must have five years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program.
4. Vested pension - Pre-2012 date of hire: Five years of credited service. Post-2011 date of hire: 10 years of credited service.
5. Survivor Benefits-If employee is receiving a pension, the eligible survivor receives 50% of the pension (or 67.7% with a 2% reduction of benefits, 75% with 3% reduction of benefits, or 100% with a 6% reduction of benefits); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.
6. Contributions -
    a. Employer - Determined by Board of Pension Trustees. Required to contribute 11.96% of its gross payroll for 2020.
    b. Pre-2012 date of hire Member - 3% of earnings in excess of $6,000.
    c. Post-2011 date of hire Member – 5% of earnings in excess of $6,000.
7. Burial Benefit- $7,000 per member.

The Board of Pension Trustees issues a publicly available report, presented on the accrual basis of accounting, with detailed information about the Plan's fiduciary net position, including financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware, Office of Pensions, McArdle Building, 860 Silver Lake Blvd., Suite 1, Dover, Delaware 19904 or by calling 1-800-722-7300.

Information regarding the Other Post-Retirement Employee Benefit (OPEB) valuation is available in the State's comprehensive annual financial report.

NOTE H - ADMINISTRATIVE COST LIMIT

Senate Bill 113, passed on August 12, 2019, changed the limit for administrative cost expenditure of the Fund, without approval of the Joint Finance Committee. The bill changed the limit from 15% of the moneys deposited into the Fund 15% of the average of moneys deposited into the Fund over the previous 10 fiscal years, effective January 1, 2021.

NOTE I - COVID-19 PANDEMIC

The Fund expects economic uncertainties resulting from the COVID-19 pandemic. However, the related financial impact and duration cannot be reasonably estimated at this time.

SUPPLEMENTAL INFORMATION

State of Delaware
Department of Natural Resources and Environmental Control
Hazardous Substance Cleanup Fund
Schedule of Revenues, Expenditure, and Change in Fund Balance by Account - Modified Cash Basis
For the Year Ended June 30, 2020

	Administrative Account	Cleanup Fund	Voluntary Cleanup Fund	Brownfield Program	Total
REVENUES					
Tax assessments	$ -	$ 9,926,453	$ -	$ 4,963,224	$ 14,889,677
Cost recovery	73,231	243,054	17,675	101,522	435,482
Voluntary cleanup	-	-	123,930	-	123,930
Interest	-	342,075	20,093	180,288	542,456
Other	188,047	76,451	24	-	264,522
TOTAL REVENUES	261,278	10,588,033	161,722	5,245,034	16,256,067
EXPENDITURE					
Cleanup program	1,963,399	7,904,720	197,945	3,025,224	13,091,288
NET CHANGE IN FUND BALANCE	(1,702,121)	2,683,313	(36,223)	2,219,810	3,164,779
FUND BALANCE - BEGINNING OF YEAR	(7,811,890)	24,093,711	717,155	1,065,316	18,064,292
FUND BALANCE - END OF YEAR	$ (9,514,011)	$ 26,777,024	$ 680,932	$ 3,285,126	$ 21,229,071

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*

INDEPENDENT AUDITOR'S REPORT

To the Management of the State of Delaware Hazardous Substance Cleanup Fund
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the Department of Natural Resources and Environmental Control Hazardous Substance Cleanup Fund of the State of Delaware (the "Fund"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements – modified cash basis, and have issued our report thereon dated December 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements – modified cash basis, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements – modified cash basis, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Fund's financial statements – modified cash basis will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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.*

Zelenkofske Axelrod LLC
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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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Harrisburg, Pennsylvania
December 23, 2020

The summary which follows indicates the current status of findings identified in the prior year Audit Report.

Prior Year Finding	Brief Description of Finding	Current Year Status
None Reported	N/A None Reported	N/A None Reported