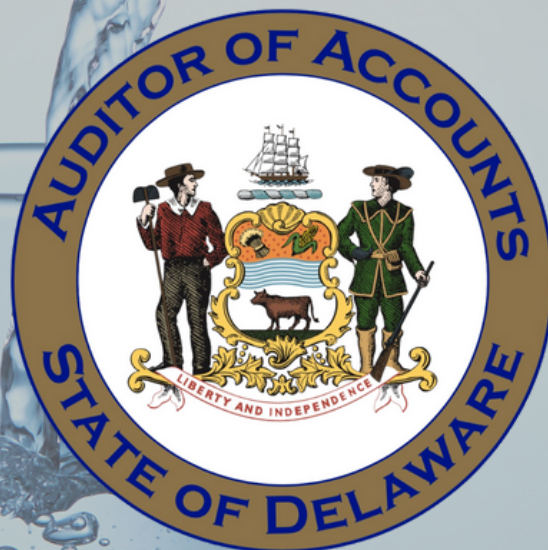


STATE OF DELAWARE

FINANCIAL
STATEMENT AUDIT



Drinking Water Revolving
Loan Fund
Fiscal Year 2021

A Report by
Kathleen McGuinness, RPh, CFE



KATHLEEN
McGUINNESS
DELAWARE
STATE AUDITOR

*State of Delaware
Drinking Water
Revolving Loan Fund
Fiscal Year 2021*

What Was Performed? A financial statement audit of the State of Delaware Drinking Water Revolving Loan Fund for Fiscal Year 2021 was performed.

Why This Engagement? This engagement was conducted in accordance with 29 *Del. C.* §2906. The State Auditor's Office conducts post-audits of all financial transactions of state agencies.

The Drinking Water State Revolving Fund (DWSRF) was established in 1996 and provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities, as well as loans for land acquisition for source water protection purposes.

The Drinking Water State Revolving Fund is funded through federal grants, but the Safe Water Drinking Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received. The Fund is jointly administered by the Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS).

What Was Found? It is my pleasure to report this audit contained an unmodified opinion.¹

The State of Delaware Water Pollution Control Revolving Loan Fund financial statement audit for Fiscal Year 2021 can be found on our [website](#).

For any questions regarding the attached report, please contact State Auditor Kathleen K. McGuinness at Kathleen.Mcguinness@delaware.gov.

¹ An unmodified opinion is sometimes referred to as a "clean" opinion. It is one in which the auditor expresses an opinion that the financial statements present fairly, in all material respects, an entity's financial position, results of operations and cash flows in conformity with generally accepted accounting principles.



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May 9, 2022

Office of Auditor of Accounts
Department of Natural Resources and Environmental Control
State of Delaware Water Pollution Control Revolving Loan Fund
State of Delaware Drinking Water Control Revolving Loan Fund
Dover, Delaware 19901

We have audited the financial statements of the State of Delaware, Delaware Water Pollution Control Revolving Loan Fund and Delaware Drinking Water Revolving Loan Fund (collectively, "The Funds") as of and for the year ended June 30, 2021 and have issued our report thereon dated May 9, 2022. Professional standards require that we advise you of the following matters relating to our audits.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 20, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audits of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audits to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Funds solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audits that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

The audits were not completed in accordance with the planned timing previously communicated to you due to delays encountered in obtaining certain audit documentation.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

In order to eliminate the identified threats to independence associated with our assistance with the preparation of the financial statements, we have ensured a member of firm management, independent of the associated activity, performed a review of the financial statements.



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Department of Natural Resources and Environmental Control
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Significant Risks Identified

We have identified the following significant risks:

- Management override of controls
- Improper revenue recognition due to error or fraud

Although these significant risks were identified, we designed our audit procedures to mitigate the risks.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Funds is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the allowance for doubtful accounts for loans and leases receivables is based on historical bad debts, historical loss levels, and an analysis of the collectability of individual accounts.

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Funds' financial statements relate to:

- The disclosure of pooled cash – State Treasurer's pool.
- The disclosure of loans and leases receivable.
- The disclosure of the deobligation of federal and state match funds between the Funds.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We encountered no significant unusual transactions during our audits.



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Department of Natural Resources and Environmental Control
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Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audits.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no identified misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Funds' financial statements or the auditor's report. No such disagreements arose during the course of the audits.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We have included emphasis of matter paragraphs in the auditor's report to discuss that the financial statements being reported on are only those of the Funds and do not purport to, and do not present, the financial position of the State of Delaware.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated May 9, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Funds, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Funds' auditors.



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Department of Natural Resources and Environmental Control
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Restriction on Use

This information is intended solely for the use of the Office of Auditor of Accounts, Department of Natural Resources and Environmental Control and management of the Funds and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Zelenkofske Axlerod LLC

Zelenkofske Axlerod LLC
Harrisburg, Pennsylvania

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INDEPENDENT AUDITOR'S REPORT

To the Management of the State of Delaware Drinking Water Revolving Loan Fund
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Delaware Drinking Water Revolving Loan Fund (the "Fund"), as of and for the year ended June 30, 2021, 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 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.

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 financial position of the Fund as of June 30, 2021, 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.

830 Sir Thomas Court, Suite 100, Harrisburg, PA 17109
3800 McKnight East Drive, Suite 3805, Pittsburgh, PA 15237
34745 Burbage Road, Frankford, DE 19945

2370 York Road, Suite A-5, Jamison, PA 18929
420 Chinquapin Round Road, Suite 2-i, Annapolis, MD 21401
210 Tollgate Hill Road, Greensburg, PA 15601



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Emphasis of Matter

As discussed in Note A, the financial statements present only the State of Delaware Drinking Water Revolving Loan Fund and do not purport to, and do not present fairly the financial position of the State of Delaware, as of June 30, 2021, 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.

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 4–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 schedules of net position by sub-fund, schedules of revenues, expenses and changes in net position by sub-fund, schedules of net position by classification, and schedules of revenues, expenses and changes in net position by classification as of and for the year ended June 30, 2021, 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 June 30, 2021 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 June 30, 2021 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The June 30, 2020 supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

The Fund's June 30, 2020 financial statements were audited by other auditors, who expressed an unmodified audit opinion on those audited financial statements in their report dated October 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2022, 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 the effectiveness of the Fund's 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.

Harrisburg, Pennsylvania
May 9, 2022

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2021 and 2020**

As management of the State of Delaware Drinking Water Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2021 and 2020 (fiscal years 2021 and 2020). All amounts, unless otherwise indicated, are expressed in thousands of dollars.

This section of the Fund's annual financial report presents management's discussion and analysis of the financial performance during the fiscal year. Please read it in conjunction with the Fund's financial statements, which follow this section.

Overview of the Financial Statements

The Fund was established through subsection 15 of 29 Del. C., c. 79, and provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities, as well as loans for land acquisition for source water protection purposes. The Fund is funded through federal capitalization grants as established under Federal §1452 of the Safe Drinking Water Act (the Act). The Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received.

The Fund is jointly administered by the Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS). The primary activities include making loans, providing direct assistance, and managing the Fund to meet the objectives of the Act.

The Fund consists of five sub-funds, each of which is considered a separate accounting entity. The primary activity of the Loan Fund, the main sub-fund is the issuance of loans. The remaining four set-aside sub-funds are used to account for the proceeds of specific federal grant revenues that are legally restricted to expenses for specific purposes.

The Fund's activities are accounted for as a distinct operating unit within the DNREC. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the State that are attributable to the transactions of the Fund.

The Fund is accounted for as an enterprise fund. The accrual basis of accounting is utilized in enterprise funds. Revenue is recognized when earned, and expenses are recognized when the liability is incurred.

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

Financial Highlights (Numbers in Thousands)

The Fund realized a change in net position of \$19,765 in fiscal year 2021, which represents an increase of 132%. The increase was a result of several factors, an increase in grant revenue and state match. The Fund realized a change in net position of \$8,530 in fiscal year 2020, which represents an increase of 9% increase from 2019. The increase in net position in 2020 was due to an increase in grant revenue and interest income.

Grant revenue recognized from the federal and state governments totaled \$20,978 in fiscal year 2021, a 120% increase from fiscal year 2020, due to an increase in federal grants. Grant revenue recognized from the federal and state governments totaled \$9,549 in fiscal year 2020, a 12% increase from fiscal year 2019, due to increased Federal and State grant revenues.

Loans made totaled \$19,794 during fiscal year 2021, which represents an increase of \$11,333 from the previous year. This increase of 133% was caused by increased draws on existing loans from municipalities and others through the State. Loans made during 2020 totaled \$8,461, which represents an increase of \$3,097 from the previous year. This increase of 58% was caused by increased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$8,461 during fiscal year 2021. This represents an overall increase of \$341, 4%, from 2020 due to increased borrowings in recent years resulting in increased principal payments by loan recipients. Loan collections (principal) totaled \$8,120 during 2020. This represents an overall increase of \$787 or 11%, from the prior year.

Loan agreements may provide for a subsidization of the loan where, upon completion, a percentage of the loan will be forgiven. The allowance for subsidization for fiscal 2021 was \$289. This represents an overall decrease of \$412, or 59% from fiscal 2020. The allowance for subsidization for fiscal 2020 decreased \$3,215 from 2019, or 82% to \$701.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2021 and 2020 increased by \$19,765 and \$8,530, respectively. The following condensed statement of net position (Table 1) shows a summary of changes in dollars for the Fund for fiscal years ended June 30, 2021, 2020 and 2019.

During fiscal year 2021, pooled cash increased by approximately \$6,636, or 9%, to \$83,539 based on an increase in grants received, an increase in interest income, and an increase in collections. Loans receivable increased, by \$10,934, or 11%, to \$106,186, mostly as a result of increased loans made and an decrease in loan subsidization. Federal grants receivable increased by \$1,007, or 292%, due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2021. Due to state increased \$1,118, or 100%, since the State reimbursed the Fund in advance of requested reimbursement from EPA.

During fiscal year 2020, pooled cash increased by approximately \$11,837, 18% to \$76,903 based on an increase in grants received, an increase in interest income, and an increase in collections. Loans receivable decreased, by \$1,505, 2%, to \$95,252, mostly as a result of decreased loans made and an increase in loan subsidization. Federal grants receivable decreased by \$329, 49% due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2020.

Vouchers payable in 2021 decreased by \$112 or 30% from the prior year as a result of timing of disbursements at year end for 2021. Vouchers payable in 2020 decreased by \$294, or 44% for the same reason.

Table 1
Statement of Net Position
(Thousands of Dollars)

	June 30,		
	2021	2020	2019
Current assets			
Pooled cash and investments	\$ 83,539	\$ 76,903	\$ 65,066
Loans, current portion	7,498	7,740	7,311
Loan interest	557	563	580
Federal grants receivable	1,351	345	674
Total current assets	<u>92,945</u>	<u>85,551</u>	<u>73,631</u>
Noncurrent assets			
Loans, net of current portion	<u>98,688</u>	<u>87,512</u>	<u>89,446</u>
Total assets	<u>\$ 191,633</u>	<u>\$ 173,063</u>	<u>\$ 163,077</u>
Current liabilities			
Due to State	\$ 1,118	\$ -	\$ -
Unearned revenue - state match	-	2,201	451
Vouchers payable	258	370	664
Total current liabilities	<u>1,376</u>	<u>2,571</u>	<u>1,115</u>
Net position - unrestricted	<u>190,257</u>	<u>170,492</u>	<u>161,962</u>
Total liabilities and net position	<u>\$ 191,633</u>	<u>\$ 173,063</u>	<u>\$ 163,077</u>

Statement of Revenues, Expenses, and Changes in Net Position (Numbers in Thousands)

The following schedule summarizes the statement of revenue, expenses, and changes in net position of the Fund for the fiscal years ended June 30, 2021, 2020, and 2019 (Table 2).

Federal grant revenue increased by \$7,477, or 82%, and the State match revenue increased \$3,952, during fiscal year 2021. Federal grant revenue increased by \$582, or 7% during fiscal year 2020 due to an overall increase in grants compared to the prior years.

Interest income from cash deposits decreased by \$857, or 44% during fiscal year 2021, due to decreased grant funds and due to the decrease in pooled cash and investments. Interest income from cash deposits increased by \$988, or 104%, during fiscal year 2020, due to increased grant funds and higher returns on the State's investment pool.

In 2021, operating expenses increased by approximately \$605, or 16%, due mostly to increases in contract services.

In 2020, operating expenses increased by approximately \$136, or 4%, due mostly to increases in contract services.

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

	June 30,		
	2021	2020	2019
Operating revenue			
Interest income - loans and administrative fees	\$ 2,375	\$ 2,445	\$ 2,436
Operating expenses			
Salaries and related benefits	1,874	1,616	1,814
Contract services	1,568	1,409	1,011
Grants	99	134	302
Indirect costs	446	349	293
Supplies	366	247	250
Training	62	54	-
Travel	-	2	5
Total operating expenses	<u>4,415</u>	<u>3,811</u>	<u>3,675</u>
Operating loss	<u>(2,040)</u>	<u>(1,366)</u>	<u>(1,239)</u>
Nonoperating revenues and expenses			
Interest income - cash deposits	1,078	1,935	947
Grant revenue	16,575	9,098	8,516
State match	4,403	451	-
Subsidization through principal forgiveness	<u>(251)</u>	<u>(1,588)</u>	<u>(402)</u>
Total nonoperating revenues and expenses	<u>21,805</u>	<u>9,896</u>	<u>9,061</u>
Change in net position	19,765	8,530	7,822
Net position - beginning of year	<u>170,492</u>	<u>161,962</u>	<u>154,140</u>
Net position - ending of year	<u>\$ 190,257</u>	<u>\$ 170,492</u>	<u>\$ 161,962</u>

Request for Information

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

Laura Robbins
State of Delaware
Department of Natural Resources & Environmental Control
Environmental Finance
97 Commerce Way, Suite 106
Dover, DE 19901

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets		
Pooled cash and investments	\$ 83,539,122	\$ 76,902,656
Loans receivable	7,498,509	7,739,974
Interest receivable	556,524	563,388
Federal grants receivable	1,351,068	344,552
Total current assets	92,945,223	85,550,570
Noncurrent assets		
Loans receivable	98,687,861	87,512,243
Total assets	\$ 191,633,084	\$ 173,062,813
Liabilities		
Current liabilities		
Due to State	\$ 1,118,341	\$ -
Unearned revenue - state match	-	2,200,800
Vouchers payable	257,888	369,714
Total current liabilities	1,376,229	2,570,514
Net position		
Net position - unrestricted	190,256,855	170,492,299
Total liabilities and net position	\$ 191,633,084	\$ 173,062,813

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Interest income - loans	\$ 1,190,778	\$ 1,222,331
Interest income - administrative fees	1,184,262	1,222,376
Total operating revenues	<u>2,375,040</u>	<u>2,444,707</u>
Operating expenses		
Salaries and related benefits	1,873,881	1,616,420
Contract services	1,568,254	1,408,514
Grants	98,782	133,513
Indirect costs	445,669	348,979
Supplies	366,506	246,941
Training	62,353	54,006
Travel	43	1,750
Total operating expenses	<u>4,415,488</u>	<u>3,810,123</u>
Operating loss	<u>(2,040,448)</u>	<u>(1,365,416)</u>
Nonoperating revenues and expenses		
Interest income - cash accounts	1,077,853	1,935,382
Grant revenue	16,574,965	9,097,611
State match	4,403,000	451,400
Subsidization through principal forgiveness	(250,814)	(1,588,282)
Total nonoperating revenues, net	<u>21,805,004</u>	<u>9,896,111</u>
Change in net position	19,764,556	8,530,695
Net position - beginning of year	<u>170,492,299</u>	<u>161,961,604</u>
Net position - end of year	<u>\$ 190,256,855</u>	<u>\$ 170,492,299</u>

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Loan repayments	\$ 8,461,917	\$ 8,120,281
Interest income - loans	1,197,642	1,222,331
Interest income - administrative fees	1,184,262	1,222,376
Loan disbursements	(19,794,559)	(8,460,964)
Salaries and related benefits paid	(1,873,881)	(1,616,420)
General expenses paid	(2,505,758)	(2,214,521)
Net cash used in operating activities	<u>(13,330,377)</u>	<u>(1,726,917)</u>
Cash flows from noncapital financing activities		
Grants received from EPA	15,568,449	9,427,056
Grants received from state	2,202,200	2,200,800
Advance from state	1,118,341	-
Net cash provided by noncapital financing activities	<u>18,888,990</u>	<u>11,627,856</u>
Cash flows from investing activities		
Interest received from cash deposits	<u>1,077,853</u>	<u>1,935,382</u>
Net increase in cash and cash equivalents	6,636,466	11,836,321
Cash and cash equivalents - beginning of year	<u>76,902,656</u>	<u>65,066,335</u>
Cash and cash equivalents - end of year	<u>\$ 83,539,122</u>	<u>\$ 76,902,656</u>
Reconciliation of net operating income to net cash used in operating activities:		
Operating loss	\$ (2,040,448)	\$ (1,365,416)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	(11,184,967)	(83,610)
(Increase) decrease in interest and dividends receivable	6,864	16,244
Increase (decrease) in vouchers payable	<u>(111,826)</u>	<u>(294,135)</u>
Net cash used in operating activities	<u>\$ (13,330,377)</u>	<u>\$ (1,726,917)</u>
Schedule of noncash investing activities		
Subsidization through principal forgiveness	<u>\$ (250,814)</u>	<u>\$ (1,588,282)</u>

See accompanying notes to financial statements.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements
Years Ended June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies

This summary of significant accounting policies of the State of Delaware Drinking Water Revolving Loan Fund (the Fund) is presented to assist in understanding the Fund's financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

1. General Background

The Fund was established through 29 Del. C., c. 79, which provides financial assistance to eligible public water systems in Delaware for the planning, design, and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. Standard loans made by the Fund must be repaid within 20 to 30 years. All repayments, including interest and principal, must remain in the Fund.

The Fund is jointly administered by the State of Delaware Department of Health and Social Services (DHSS), and the State of Delaware Department of Natural Resources and Environmental Control (DNREC). DHSS is responsible for program administration, which includes project solicitation, environmental reviews, construction project management, and management of program set-asides. DNREC is responsible for accounting and financial management, which includes management of accounts, coordinating audit requirements, and coordinating loan closings with legal counsel.

The Fund is funded through federal capitalization grants as established under Federal §1452 of the Safe Drinking Water Act (the Act) and Capitalization Grants for Drinking Water State Revolving Loan Fund (Assistance Listing #66.468)(Capitalization Grants). The Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received. The grants were issued as follows:

Grant Year	Total Available Funding	Federal Portion	State Portion
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2016 *	176,958,898	147,465,748	29,493,150
2017	9,889,200	8,241,000	1,648,200
2018	13,328,400	11,107,000	2,221,400
2019	13,204,800	11,004,000	2,200,800
2020	13,213,200	11,011,000	2,202,200
Total	<u>\$246,094,498</u>	<u>\$208,328,748</u>	<u>\$37,765,750</u>

*Amounts were adjusted to reflect deobligation of federal funding, and corresponding state match, see note F.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies (Continued)

1. General Background (Continued)

The federal grant years are one year behind the Fund's fiscal year. Therefore, federal year 2020 corresponds to the Fund's 2021 fiscal year.

The State match is paid from nonfederal administrative funds or from appropriations received from the State.

The Fund is accounted for as an enterprise fund. The Fund is made up of five sub-funds whose funds are restricted for a specific purpose. The sub-funds are described below:

Loan Fund

The primary purpose of the Loan Fund is to serve as a permanent loan fund to make low-interest loans to public water systems.

Set-Aside Sub-Funds

The Set-Aside Sub-Funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

There are four such funds:

- a. The 2% Technical Assistance Sub-Fund is used to account for the funds allotted to the State (up to 2% of the total) to provide assistance to public water systems serving 10,000 people or fewer.
- b. The 4% Administration Sub-Fund is used to account for the funds allotted to the State (up to 4% of the total) for the reasonable costs of administering the programs under §1452 and providing technical assistance. These costs may include such activities as issuing debt, program start-up costs, audit costs, financial, management and legal consulting fees, development of an intended use plan and priority ranking system, development of affordability criteria, and cost of support services provided by other State agencies.
- c. The 10% Program Management Sub-Fund is used to account for the funds allotted to the State (up to 10% of the total) to:
 - 1) Administer the State Public Water System Supervision Program (PWSS) program;
 - 2) Administer or provide technical assistance through source water protection programs;

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies (Continued)

1. General Background (Continued)

- 3) Develop and implement a capacity development strategy; and
- 4) Develop and implement an operator certification program.

The State must provide a dollar-for-dollar match (100% for up to 10% of the Capitalization Grant) for Capitalization Grant funds used for these purposes. This match is separate, and in addition to, the 20% match for the Capitalization Grant.

- d. The 15% Local Assistance Sub-Funds are used to fund several other categories of activities to assist development and implementation of local drinking water protection initiatives with the stipulation that not more than 20% of the Capitalization Grant amount can be used for any one activity.

2. Type of Entity and Division of Funds

The Fund is part of the reporting entity of the State. The Fund's activities are accounted for as a distinct operating unit within the DNREC. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds and account groups of the State that is attributable to the transactions of the Fund.

3. 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 statements of net position. The statements of revenues, expenses and changes in net position present increases (revenues) and decreases (expenses) in total net position.

The Fund utilizes the accrual basis of accounting in conformity with U.S. GAAP 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 Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note A - Summary of Significant Accounting Policies (Continued)

4. Recognition of Revenues

Federal assistance provided to the Fund by the EPA and State is earned when qualified loan requisitions and supporting expenditure documentation is received by the Fund and when the borrowers' authorized representative and consulting engineer have certified the work completed. Matching funds provided by the State are considered earned by the same criteria. Amounts earned in excess of grant monies received from the EPA and the State are recorded as grants receivable, whereas an excess of grant monies received over the amounts earned is recorded as unearned grant revenue. A right of set-off does not exist between the State and the EPA.

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

5. Pooled Cash

Pooled cash consists of the funds allocated share of cash, cash equivalents, and investments under control of the Treasurer of the State of Delaware (the Treasurer) (see Note B).

6. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B - Pooled Cash

Pooled Cash - State Treasurer's Pool

Pooled cash, as reported on the statements of net position, represents the Fund's allocated share of cash, cash equivalents, and investments under the control of the Treasurer. All cash is deposited with the Treasurer by State agencies and maintained by the Treasurer in various pooled funds. The Treasurer invests the deposited cash, including cash float in short-term securities and other investments. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average monthly spending authority. Pooled investments represent those investments in units of a pool rather than specific securities. Since the Fund's pooled cash is part of the State's pooled deposits and investments maintained by the Treasurer, the required disclosures related to risks are included in the Delaware Annual Comprehensive Financial Report.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note B - Pooled Cash (Continued)

Pooled Cash - State Treasurer's Pool (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. The Policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

Investment Guidelines and Management

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

Collateralization Requirements

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

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.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note B - Pooled Cash (Continued)

Pooled Cash - State Treasurer's Pool (Continued)

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the legal balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

Note C - Transfers In/Transfers Out

During the year ended June 30, 2021, the Nonfederal Administrative Fund transferred \$2,202,200 to the Capital Reserve Fund.

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

As of June 30, 2021, the Fund had federal grants awarded in the amount of \$208,328,749, from which it had made disbursements of \$204,828,960. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2012 fiscal year, see Note F. The breakdown for all grants is as follows:

Loan Fund

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 18,778,138	\$ 18,778,138	\$ -
1997-2016	106,842,717	106,842,717	-
2017	5,686,290	5,686,290	-
2018	7,663,830	7,663,830	-
2019	7,592,760	7,592,760	-
2020	<u>7,597,590</u>	<u>6,360,189</u>	<u>1,237,401</u>
Total	<u>\$154,161,325</u>	<u>\$152,923,924</u>	<u>\$ 1,237,401</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

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

Set-Aside Sub-Funds

2% Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2016	\$ 2,713,264	\$ 2,713,264	\$ -
2017	164,820	164,820	-
2018	222,140	222,140	-
2019	220,080	202,303	17,777
2020	<u>220,220</u>	<u>88,074</u>	<u>132,146</u>
Total	<u>\$ 3,540,524</u>	<u>\$ 3,390,601</u>	<u>\$ 149,923</u>

4% Administration

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 721,862	\$ 721,862	\$ -
1997-2016	5,769,877	5,769,877	-
2017	329,640	329,640	-
2018	444,280	429,660	14,620
2019	440,160	304,435	135,725
2020	<u>440,440</u>	<u>199,904</u>	<u>240,536</u>
Total	<u>\$ 8,146,259</u>	<u>\$ 7,755,378</u>	<u>\$ 390,881</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

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

Set-Aside Sub-Funds (Continued)

10% Program Management

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2016	\$ 14,812,027	\$ 14,812,027	\$ -
2017	824,100	824,100	-
2018	1,110,700	1,110,700	-
2019	1,100,400	1,011,748	88,652
2020	<u>1,101,100</u>	<u>755,795</u>	<u>345,305</u>
Total	<u>\$ 18,948,327</u>	<u>\$ 18,514,370</u>	<u>\$ 433,957</u>

15% Local Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2016	\$ 17,327,865	\$ 17,327,865	\$ -
2017	1,236,150	1,236,150	-
2018	1,666,050	1,666,050	-
2019	1,650,600	1,176,492	474,108
2020	<u>1,651,650</u>	<u>838,131</u>	<u>813,519</u>
Total	<u>\$ 23,532,315</u>	<u>\$ 22,244,688</u>	<u>\$ 1,287,627</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

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

Set-Aside Sub-Funds (Continued)

Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2016	147,465,749	147,465,749	-
2017	8,241,000	8,241,000	-
2018	11,107,000	11,092,380	14,620
2019	11,004,000	10,287,738	716,262
2020	11,011,000	8,242,093	2,768,907
Total	<u>\$208,328,749</u>	<u>\$204,828,960</u>	<u>\$ 3,499,789</u>

Note E - Federal Grants Receivable

Grants receivable of \$1,351,068 and \$344,552, as of June 30, 2021 and 2020, respectively, represent amounts due from the federal government for amounts expended or accrued.

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

On September 4, 2012, the Environmental Protection Agency (EPA) deobligated \$27,050,177 of the Fund's Capitalization Grant and awarded it to the WPCRLF. As part of the deobligation, \$5,410,035, which represented the required 20% state match, was appropriated to WPCRLF. During 2021 and 2020, no additional funds were deobligated.

In accordance with WPCRLF's Intended Use Plan (Plan), the \$32,460,212, described above will be returned to the Fund when they are needed for Fund commitments. The transfer will occur at management's discretion to facilitate cash flow for loan commitments incurred by the fund. When funds are transferred between WPCRLF and the Fund, the funds will be accounted for as transfers out and in, respectively.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note G - Loans Receivable

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

	Loans Receivable	
	2021	2020
City of Harrington	\$ 451,522	\$ 469,141
Town of Bethany Beach	976,516	1,201,689
Town of Blades	362,399	388,572
Town of Milton	963,263	774,462
City of Wilmington	62,623,464	53,764,636
Town of Greenwood	829,737	881,393
Town of Dagsboro	605,411	664,345
Town of Millsboro	1,848,539	2,024,052
Town of Laurel*	2,335,116	2,605,272
Town of Smyrna	4,099,615	4,051,180
City of Lewes	93,085	95,930
Town of Clayton	373,469	417,789
Town of Bridgeville	838,152	893,769
City of Rehoboth Beach	2,051,492	2,335,908
City of Seaford	769,683	833,906
City of Dover	5,174,357	5,472,966
Town of Delmar*	633,557	1,164,729
Town of Middletown	1,097,480	1,182,978
City of Milford	2,101,592	2,258,670
City of Newark	3,859,426	-
Town of Georgetown	36,658	44,344
City of Delaware City	-	120,313
Less: Principal subsidization allowance	(289,927)	(701,512)
Total Municipal	<u>\$ 91,834,606</u>	<u>\$ 80,944,532</u>

*Subsidy allowed

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note G - Loans Receivable (Continued)

	Loans Receivable	
	2021	2020
Investor-owned		
Artesian Water Company	\$ 6,318,274	\$ 5,416,415
Tidewater Utilities, Inc.	7,187,027	7,970,342
Southern Shores Water Co, LLC	846,463	919,400
Total investor-owned	14,351,764	14,306,157
Mobile home park		
Innovative construction	-	1,528
	106,186,370	95,252,217
Less: loans receivable - current portion	7,498,509	7,739,974
Loans receivable - net of current portion	\$ 98,687,861	\$ 87,512,243

Interest charged on these loans ranges from 0.00% to 2.00%. Interest earned on loans receivable and administrative fees was \$2,375,040 and \$2,444,707 for the years ended June 30, 2021 and 2020, respectively.

Loan maturities vary based on individual agreements. General Obligation and Municipal Revenue Bonds are collateral for municipal loans; business assets and real estate are collateral for investor-owned and mobile home park loans.

Except for the principal subsidy allowance, there was no allowance for doubtful accounts as of June 30, 2021 and 2020 based on historical experience. As of June 30, 2021 and 2020, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2021 and 2020. There has been no history of significant bad debts or uncollectible accounts.

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note G - Loans Receivable (Continued)

The allowance for subsidization as of June 30, 2021 and 2020 was \$289,927 and \$701,512, respectively.

Note H - State Match

As of June 30, 2021, the Fund had disbursed all state match funding as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997-2016 *	\$ 28,085,812	\$ 28,085,812	\$ -
2017	1,648,200	1,648,200	-
2018	2,221,400	2,221,400	-
2019	2,200,800	2,200,800	-
2020	<u>2,202,200</u>	<u>2,202,200</u>	<u>-</u>
Total	<u>\$ 36,358,412</u>	<u>\$ 36,358,412</u>	<u>\$ -</u>

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

Note I - Pension

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$283,750 for 2021 and \$231,901 for 2020 is included in salaries and related benefits. As of June 30, 2021, the Fund was not allocated any portion of the overall State net pension liability.

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

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

There are two tiers within this plan:

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Pension (Continued)

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

Vesting:

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

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

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

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

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

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

Contributions - Employer - determined by Board of Pension Trustees based on the actuarially determined rate. Employer contributions were 9.6% of earnings for fiscal year 2021 and 2020.

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

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

Death Benefit - \$7,000 per member.

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note I - Pension (Continued)

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

Note J - 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. As of June 30, 2021, the Fund was not allocated any portion of the overall State of Delaware net OPEB liability. Further information is available in the State's stand-alone financial report, issued for the OPEB Trust, online at <https://auditor.delaware.gov/reports>.

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

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

Eligibility:

Early Retirement:

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

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

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

General Assembly:

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

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

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

Benefits:

During the fiscal year ended June 30, 2021, the State provided health insurance options through several providers.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

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

Spouse and Survivor Coverage:

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

Retiree Contributions:

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

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

Funding Policy:

The State 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 State's General Fund. Additional funding has also been provided on an ad hoc basis.

Contributions:

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

Note K - Commitments and Contingencies

1. Loans

The Fund has met its prior binding commitments (equal to at least 120% of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2021, there were \$12,733,916 in undisbursed loan proceeds for projects under construction. As of June 30, 2021, there were binding commitments of \$6,293,243.

2. Cost Reimbursement Contracts

The Fund derives all of its nonoperating revenue from EPA Capitalization Grants for State Revolving Fund program and mandatory State matching funds that are contracts based on the reimbursement of allowable costs related to the program. Costs are subject to review by the EPA. Any adjustments arising from disallowed costs are recorded in the Fund's financial statements.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

Note L - Risk Management

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

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

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

At June 30, 2021, there were no outstanding or pending claims against the Fund.

Note M - Reclassifications

Certain items from 2020 have been reclassified to conform to the 2021 presentation.

Note N - Risks and Uncertainties

As the effects of the Coronavirus pandemic continue to evolve and are dependent upon future developments, the related impact on the Fund's operations and financial results and duration cannot be reasonably estimated at this time.

Note O - Subsequent Events

The Fund's policy is to evaluate events and transactions subsequent to year end for potential recognition in the financial statements or disclosures in the notes to the financial statements. Management has evaluated all events and transactions through May 9, 2022, the date the financial statements were available to be issued.

Supplemental Information



State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Net Position by Sub-Fund
June 30, 2021

	<u>Loan Fund</u>	<u>2% Technical Assistance</u>	<u>4% Administration</u>	<u>10% Program Management</u>	<u>15% Local Assistance</u>	<u>Total</u>
Assets						
Current assets						
Pooled cash and investments	\$ 83,527,516	\$ -	\$ 2,227	\$ 872	\$ 8,507	\$ 83,539,122
Loans receivable	7,498,509	-	-	-	-	7,498,509
Interest receivable	556,524	-	-	-	-	556,524
Federal grants receivable	855,483	-	144,852	148,274	202,459	1,351,068
Total current assets	92,438,032	-	147,079	149,146	210,966	92,945,223
Noncurrent assets						
Loans receivable	98,687,861	-	-	-	-	98,687,861
Total assets	\$ 191,125,893	\$ -	\$ 147,079	\$ 149,146	\$ 210,966	\$ 191,633,084
Liabilities						
Current liabilities						
Due to State	\$ 782,433	\$ -	\$ 122,546	\$ 71,839	\$ 141,523	\$ 1,118,341
Vouchers payable	73,050	-	24,800	84,282	75,756	257,888
Total Liabilities	855,483	-	147,346	156,121	217,279	1,376,229
Total nonoperating revenues, net						
Net position - unrestricted	190,270,410	-	(267)	(6,975)	(6,313)	190,256,855
Total liabilities and net position	\$ 191,125,893	\$ -	\$ 147,079	\$ 149,146	\$ 210,966	\$ 191,633,084

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Net Position by Sub-Fund
June 30, 2020

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current assets						
Pooled cash and investments	\$ 76,869,777	\$ -	\$ 2,966	\$ 20,691	\$ 9,222	\$ 76,902,656
Loans receivable	7,739,974	-	-	-	-	7,739,974
Interest receivable	563,388	-	-	-	-	563,388
Federal grants receivable	218,900	-	10,878	59,017	55,757	344,552
Total current assets	85,392,039	-	13,844	79,708	64,979	85,550,570
Noncurrent assets						
Loans receivable	87,512,243	-	-	-	-	87,512,243
Total assets	\$ 172,904,282	\$ -	\$ 13,844	\$ 79,708	\$ 64,979	\$ 173,062,813
Liabilities						
Current liabilities						
Unearned revenue - state match	2,200,800	-	-	-	-	2,200,800
Vouchers payable	\$ 218,900	\$ -	\$ 13,372	\$ 66,864	\$ 70,578	\$ 369,714
Total liabilities	2,419,700	-	13,372	66,864	70,578	2,570,514
Net position						
Net position - unrestricted, as adjusted	170,484,582	-	472	12,844	(5,599)	170,492,299
Total liabilities and net position	\$ 172,904,282	\$ -	\$ 13,844	\$ 79,708	\$ 64,979	\$ 173,062,813
Total nonoperating revenues, net						

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Revenues, Expenses and Changes in Net Position by Sub-Fund
Year Ended June 30, 2021

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating revenues						
Interest income - loans	\$ 1,190,778	\$ -	\$ -	\$ -	\$ -	\$ 1,190,778
Interest income - administrative fees	1,184,262	-	-	-	-	1,184,262
Total operating revenues	<u>2,375,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375,040</u>
Operating expenses						
Salaries and related benefits	29,722	-	259,225	776,493	808,441	1,873,881
Contract services	445,819	194,774	109,686	257,858	560,117	1,568,254
Grants	98,782	-	-	-	-	98,782
Indirect costs	-	-	84,388	178,071	183,210	445,669
Supplies	288,430	-	8,893	33,224	35,959	366,506
Training	-	-	-	-	62,353	62,353
Travel	8	-	-	-	35	43
Total operating expenses	<u>862,761</u>	<u>194,774</u>	<u>462,192</u>	<u>1,245,646</u>	<u>1,650,115</u>	<u>4,415,488</u>
Operating income (loss)	<u>1,512,279</u>	<u>(194,774)</u>	<u>(462,192)</u>	<u>(1,245,646)</u>	<u>(1,650,115)</u>	<u>(2,040,448)</u>
Nonoperating revenues and expenses						
Interest income - cash accounts	1,077,853	-	-	-	-	1,077,853
Grant revenue	13,043,510	194,774	461,453	1,225,827	1,649,401	16,574,965
State match	4,403,000	-	-	-	-	4,403,000
Subsidization through principal forgiveness	(250,814)	-	-	-	-	(250,814)
Total nonoperating revenues, net	<u>18,273,549</u>	<u>194,774</u>	<u>461,453</u>	<u>1,225,827</u>	<u>1,649,401</u>	<u>21,805,004</u>
Increase (decrease) in net position	19,785,828	-	(739)	(19,819)	(714)	19,764,556
Net position - beginning of year	170,484,582	-	472	12,844	(5,599)	170,492,299
Net position - end of year	<u>\$ 190,270,410</u>	<u>\$ -</u>	<u>\$ (267)</u>	<u>\$ (6,975)</u>	<u>\$ (6,313)</u>	<u>\$ 190,256,855</u>

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Revenues, Expenses and Changes in Net Position by Sub-Fund
Year Ended June 30, 2020

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating revenues						
Interest income - loans	\$ 1,222,331	\$ -	\$ -	\$ -	\$ -	\$ 1,222,331
Interest income - administrative fees	1,222,376	-	-	-	-	1,222,376
Total operating revenues	2,444,707	-	-	-	-	2,444,707
Operating expenses						
Salaries and related benefits	-	-	195,175	662,655	758,590	1,616,420
Contract services	471,700	209,100	155,653	49,553	522,508	1,408,514
Grants	133,513	-	-	-	-	133,513
Indirect costs	-	-	34,491	144,622	169,866	348,979
Supplies	87,213	-	3,340	121,159	35,229	246,941
Training	-	-	-	-	54,006	54,006
Travel	147	-	-	-	1,603	1,750
Total operating expenses	692,573	209,100	388,659	977,989	1,541,802	3,810,123
Operating income (loss)	1,752,134	(209,100)	(388,659)	(977,989)	(1,541,802)	(1,365,416)
Nonoperating revenues and expenses						
Interest income - cash accounts	1,935,382	-	-	-	-	1,935,382
Grant revenue	5,982,491	209,100	388,519	978,009	1,539,492	9,097,611
State match	451,400	-	-	-	-	451,400
Subsidization through principal forgiveness	(1,588,282)	-	-	-	-	(1,588,282)
Total nonoperating revenues, net	6,780,991	209,100	388,519	978,009	1,539,492	9,896,111
Increase (decrease) in net position	8,533,125	-	(140)	20	(2,310)	8,530,695
Net position - beginning of year	161,951,457	-	612	12,824	(3,289)	161,961,604
Net position - end of year	\$ 170,484,582	\$ -	\$ 472	\$ 12,844	\$ (5,599)	\$ 170,492,299

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Net Position by Classification
June 30, 2021 and 2020

	2021				2020			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Assets								
Current assets								
Pooled cash and investments	\$ 11,606	\$ 77,004,703	\$ 6,522,813	\$ 83,539,122	\$ 32,879	\$ 68,654,890	\$ 8,214,887	\$ 76,902,656
Loans receivable - current portion	-	7,498,509	-	7,498,509	-	7,739,974	-	7,739,974
Interest receivable	-	278,620	277,904	556,524	-	282,076	281,312	563,388
Federal grants receivable	495,585	855,483	-	1,351,068	125,652	218,900	-	344,552
Total current assets	507,191	85,637,315	6,800,717	92,945,223	158,531	76,895,840	8,496,199	85,550,570
Noncurrent assets								
Loans receivable, net of current portion	-	98,687,861	-	98,687,861	-	87,512,243	-	87,512,243
Total assets	\$ 507,191	\$ 184,325,176	\$ 6,800,717	\$ 191,633,084	\$ 158,531	\$ 164,408,083	\$ 8,496,199	\$ 173,062,813
Liabilities								
Current liabilities								
Due to State	\$ 335,908	\$ 782,433	\$ -	\$ 1,118,341	\$ -	\$ -	\$ -	\$ -
Unearned revenue - state match	-	-	-	-	-	2,200,800	-	2,200,800
Vouchers payable	184,838	73,050	-	257,888	150,814	218,900	-	369,714
Total nonoperating revenues,	520,746	855,483	-	1,376,229	150,814	2,419,700	-	2,570,514
Net position								
Net position - unrestricted	(13,555)	183,469,693	6,800,717	190,256,855	7,717	161,988,383	8,496,199	170,492,299
Total liabilities and net position	\$ 507,191	\$ 184,325,176	\$ 6,800,717	\$ 191,633,084	\$ 158,531	\$ 164,408,083	\$ 8,496,199	\$ 173,062,813

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Revenues, Expenses and Changes in Net Position by Classification
Year Ended June 30, 2021 and 2020

	2021				2020			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Operating revenues								
Interest income - loans	\$ -	\$ 1,190,778	\$ -	\$ 1,190,778	\$ -	\$ 1,222,331	\$ -	\$ 1,222,331
Interest income - administrative fees	-	-	1,184,262	1,184,262	-	-	1,222,376	1,222,376
Total operating revenues	-	1,190,778	1,184,262	2,375,040	-	1,222,331	1,222,376	2,444,707
Operating expenses								
Salaries and related benefits	1,844,159	29,722	-	1,873,881	1,616,420	-	-	1,616,420
Contract services	1,122,435	12,302	433,517	1,568,254	936,814	-	471,700	1,408,514
Grants	-	-	98,782	98,782	-	-	133,513	133,513
Indirect costs	445,669	-	-	445,669	348,979	-	-	348,979
Supplies	78,076	-	288,430	366,506	159,728	-	87,213	246,941
Training	62,353	-	-	62,353	54,006	-	-	54,006
Travel	35	-	8	43	1,603	-	147	1,750
Total operating expenses	3,552,727	42,024	820,737	4,415,488	3,117,550	-	692,573	3,810,123
Operating income (loss)	(3,552,727)	1,148,754	363,525	(2,040,448)	(3,117,550)	1,222,331	529,803	(1,365,416)
Nonoperating revenues and expenses								
Interest income - cash accounts	-	934,660	143,193	1,077,853	-	1,713,246	222,136	1,935,382
Grant revenue	3,531,455	13,043,510	-	16,574,965	3,115,120	5,982,491	-	9,097,611
State match	-	4,403,000	-	4,403,000	-	451,400	-	451,400
Subsidization through principal forgiveness	-	(250,814)	-	(250,814)	-	(1,588,282)	-	(1,588,282)
Interfund write off	-	-	-	-	-	(672,175)	672,175	-
Total nonoperating revenues, net	3,531,455	18,130,356	143,193	21,805,004	3,115,120	5,886,680	894,311	9,896,111
Transfers in (out)	-	2,202,200	(2,202,200)	-	-	-	-	-
Change in net position	(21,272)	21,481,310	(1,695,482)	19,764,556	(2,430)	7,109,011	1,424,114	8,530,695
Net position - beginning of year, as adjusted	7,717	161,988,383	8,496,199	170,492,299	10,147	154,879,372	7,072,085	161,961,604
Net position - end of year	\$ (13,555)	\$ 183,469,693	\$ 6,800,717	\$ 190,256,855	\$ 7,717	\$ 161,988,383	\$ 8,496,199	\$ 170,492,299



Zelenkofske Axlerod LLC

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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 Drinking Water Revolving Loan 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 financial statements of the State of Delaware Drinking Water Revolving Loan Fund (the "Fund"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated May 9, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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, 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 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*.

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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.

Harrisburg, Pennsylvania
May 9, 2022

Zelenkofske Axlerod LLC

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