

**State of Delaware  
Drinking Water Revolving Loan  
Fund**

**Financial Statements  
(and Supplemental Information)  
Years Ended June 30, 2011 and 2010**

Issue date: June 11, 2012

**State of Delaware**  
**Drinking Water Revolving Loan Fund**

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Financial Statements  
(and Supplemental Information)  
Years Ended June 30, 2011 and 2010

# State of Delaware Drinking Water Revolving Loan Fund

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## Independent Auditors' Report

To the Management  
Drinking Water Revolving Loan Fund  
Dover, Delaware

We have audited the accompanying financial statements of the Drinking Water Revolving Loan Fund (the "Fund") of the State of Delaware as of and for the year ended June 30, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended June 30, 2010 were audited by McBride Shopa & Company, P.A., whose practice was combined with our firm and whose report dated September 29, 2010, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements present only the Fund and are not intended to present fairly the financial position of the State of Delaware, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 8, 2012, 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* and should be considered in assessing the results of our audit.

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## Independent Auditors' Report (Cont'd.)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 5 through 9 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.

Our audit was conducted for the purpose of forming opinions on the Fund's basic financial statements. The statements of fund net assets by fund, statements of revenues, expenses and changes in fund net assets by fund, statements of fund net assets by classification, and statements of revenues, expenses and changes in net assets by classification are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements of fund net assets by fund, statements of revenues, expenses and changes in fund net assets by fund, statements of fund net assets by classification, and statements of revenues, expenses and changes in net assets by classification are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*BDO USA, LLP*

June 8, 2012

## **Management's Discussion and Analysis**

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# State of Delaware Drinking Water Revolving Loan Fund

## Management's Discussion and Analysis

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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 year ended June 30, 2011. 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 Chapter 79, Title 29, Subsection 15 of the Delaware Code, 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 Section 1452 of the Safe Drinking Water Act. The Act requires the State of Delaware to provide matching funds equal to 20 percent of federal funds received.

The Fund is administered by the State of Delaware, Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance, and managing the Fund to meet the objectives of the Safe Drinking Water Act.

The Fund consists of five sub-funds, each of which is considered a separate accounting entity. The primary activity of the Loan Fund is the issuance of loans. The four Set-aside Sub-Funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

The Fund's activities are accounted for as a distinct operating unit within the DPH. 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 of the State of Delaware that is attributable to the transactions of the Fund.

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

# State of Delaware Drinking Water Revolving Loan Fund

## Management's Discussion and Analysis

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### Financial Highlights (numbers in thousands)

The Fund realized a change in net assets of \$13,329.3 in fiscal year 2011, which represents a decrease of 7.0% from the change in net assets of \$14,333.0 in fiscal year 2010. The change in net assets from fiscal year 2010 was an increase of 42.8% from the change in net assets of \$10,040.7 in fiscal year 2009. Increases in net assets for both 2011 and 2010 were due to increased loan activity, which includes funding from the American Recovery and Reinvestment Act for special projects.

Grant revenue recognized from the Federal and State governments totaled \$17,320.1 in fiscal year 2011, a (13.6)% decrease from fiscal year 2010, largely due to decreased disbursements from the American Recovery and Reinvestment Act for special projects. Grant revenue recognized from the Federal and State governments totaled \$20,052.6 in fiscal year 2010, a 96.3% increase from fiscal year 2009 due to increased loan activity.

Loans made totaled \$14,231.2 during this fiscal year, which represents an increase of \$1,187.8 from the previous year. This increase of 9.1% was caused by increased draws on existing loans from municipalities and others through the State. Loans made during 2010 totaled \$13,043.5, which represents an increase of \$5,020.4 from the previous year. This increase of 62.6% was caused by increased draws on existing loans from municipalities and others through the State.

Loan collections (principal) totaled \$1,250.8 during this fiscal year. This represents an overall decrease of \$(330.7), or (20.9)% from the prior year because of late payments from a borrower. Loan collections (principal) totaled \$1,581.5 during fiscal year 2010. This represents an overall increase of \$200.1, or 14.5% from the prior year because more loan recipients have completed their projects, at which time repayments of principal amounts are required to take place.

### Statement of Net Assets

The total net assets of the Fund for year ending June 30, 2011 and 2010 increased by \$13,329.3 and \$14,333.0, respectively. The following condensed statement of net assets (Table 1) shows a summary of changes in dollars.

During the fiscal year 2011, cash decreased approximately \$(229.7), (1.1)%, to \$20,840.2 based on a decrease in loan repayments and loan origination fees received. Loans receivable increased by \$14,387.4, 21.8%, to \$80,497.6, mostly as a result of the issuance of one new loan and more draws on six existing loans. Federal grants receivable increased by approximately \$1,783.8, 81.9%, mostly due to the timing of reimbursements requests from the United States Environmental Protection Agency (EPA) during the fiscal year ended June 30, 2011.

During the fiscal year 2010, cash increased approximately \$2,735.6, 14.9%, to \$21,069.9 based on an increase in loan repayments and loan origination fees received. Loans receivable increased by \$11,462.0, 21.0%, to \$66,110.1, mostly as a result of the issuance of one new loan and more draws on seven existing loans. Federal grants receivable increased by approximately \$11.8, 81.9%, mostly due to the timing of reimbursements requests from EPA during the fiscal year ended June 30, 2010.

**State of Delaware  
Drinking Water Revolving Loan Fund**

**Management's Discussion and Analysis**

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TABLE 1  
STATEMENT OF NET ASSETS  
(Thousands of Dollars)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 20,840.2	\$ 21,069.9	\$ 18,334.3
Loans, current portion	4,225.2	2,157.0	1,687.1
Loan interest	1,006.6	579.0	413.7
Loan to Drinking Water Grant Fund	-	-	240.7
Federal grants receivable	1,810.0	26.2	14.4
Federal advances	-	-	549.3
State grants receivable	3,275.0	3,294.1	3,275.0
<b>Total current assets</b>	<b>31,157.0</b>	<b>27,126.2</b>	<b>24,514.5</b>
<b>NONCURRENT ASSETS</b>			
Loans, net of current portion	76,272.4	63,953.1	52,961.0
<b>Total assets</b>	<b>\$ 107,429.4</b>	<b>\$ 91,079.3</b>	<b>\$ 77,475.5</b>
<b>CURRENT LIABILITIES</b>			
Federal grants payable	\$ -	\$ -	\$ 549.3
Vouchers payable	2,028.3	26.2	14.4
Refundable advance	-	-	211.8
	2,028.3	26.2	775.5
<b>NON-CURRENT LIABILITIES</b>			
Deferred revenue - state match	8,732.3	7,713.6	7,693.7
<b>Total liabilities</b>	<b>10,760.6</b>	<b>7,739.8</b>	<b>8,469.2</b>
<b>NET ASSETS - unrestricted</b>	<b>96,668.8</b>	<b>83,339.5</b>	<b>69,006.3</b>
<b>Total liabilities and net assets</b>	<b>\$ 107,429.4</b>	<b>\$ 91,079.3</b>	<b>\$ 77,475.5</b>

# State of Delaware Drinking Water Revolving Loan Fund

## Management's Discussion and Analysis

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### Statement of Net Assets (Cont'd.)

Vouchers payable increased by \$2,002.1, which was primarily due to a delay in approval of disbursements at year-end. For the fiscal year 2010, vouchers payable increased identically to Federal grants receivable as this account represents amounts advanced to the Fund in anticipation of Federal grants and State expenditures as of June 30, 2010.

Deferred revenue from the State match increased by \$1,018.7, 13.2%, as it received a new grant from the EPA which required a match that was deposited into the Fund. The deposit was partially offset by disbursements to sub-recipients during the fiscal year.

Deferred revenue from the State match increased by \$1,018.7, 13.2%, as the State drew down its match to fund loan disbursements to sub-recipients during the fiscal year. This was partially offset by a new grant from the EPA which required a match that was deposited into the Fund.

### Statement of Revenue, Expenses, and Changes in Net Assets (numbers in thousands)

The following schedule summarizes the statement of revenue, expenses, and changes in net assets of the Fund for the fiscal years ended June 30, 2011, 2010, and 2009.

Federal grant revenue for loans decreased by \$(2,687.8), 16.8% during the fiscal year 2011, but the State match revenue increased by \$128.2, 8.2%. There was a decrease in drawdowns from the loans funded by the American Recovery and Reinvestment Act, which does not require a state match. Additionally, there was an increase in drawdowns from base loans, which do require a state match.

Federal grant revenue for loans increased by \$9,694.2, 153.7% during fiscal year 2010, but the State match revenue increased by only \$122.9, 8.5%. There was an increase in demand from sub-recipients during fiscal year 2010. The State match contributions increased at a lower rate because the American Recovery and Reinvestment Act does not require a state match.

Federal grant revenue for set-aside sub-funds decreased by approximately \$173.0, (7.0)% during fiscal year 2011, due to more efficient spending in the set-aside sub-funds by the Office of Drinking Water. Federal grant revenue for set-aside sub-funds increased by approximately \$22.5, 0.9% during fiscal year 2010, due to completion of source water protection projects in the set-aside sub-funds by the Office of Drinking Water.

Interest income from cash deposits decreased by \$11.4, 5.5% during fiscal year 2011 and \$156.6, 42.8% during fiscal year 2010, due mainly to decreases in interest rates (see Note 2).

For fiscal year 2011, operating expenses decreased by approximately \$(197.2), (7.9)%, due primarily to early completion of subgrant projects. For fiscal year 2010, operating expenses increased by \$46.7, 1.9%.

**State of Delaware  
Drinking Water Revolving Loan Fund**

**Management's Discussion and Analysis**

TABLE 2  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
(Thousands of Dollars)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue			
Interest income - loans and admin. fees	\$ 1,313.6	\$ 1,889.8	\$ 395.4
Loan origination fees	50.0	20.9	1,529.2
<b>Total operating revenue</b>	<b>1,363.6</b>	<b>1,910.7</b>	<b>1,924.6</b>
Operating expenses			
Salaries and related benefits	704.3	608.9	623.2
Contract services	779.8	943.7	618.0
Indirect costs	51.8	52.1	46.7
Subgrants	722.7	859.6	1,085.0
Supplies	40.5	30.1	38.1
Equipment	-	14.1	4.2
Training	2.1	(6.1)	30.8
Travel	10.6	6.9	16.4
<b>Total operating expenses</b>	<b>2,311.9</b>	<b>2,509.3</b>	<b>2,462.4</b>
<b>Operating income (loss)</b>	<b>(948.3)</b>	<b>(598.6)</b>	<b>(537.8)</b>
Non-operating revenue			
Interest income - cash deposits	197.5	208.9	365.5
Grant revenue - loans	13,312.2	16,000.0	6,305.8
Grant revenue - set asides	2,311.9	2,484.9	2,462.4
ARRA loan forgiveness	(3,240.0)	(5,329.9)	0
State match	1,696.0	1,567.7	1,444.8
<b>Total non-operating revenue</b>	<b>14,277.6</b>	<b>14,931.6</b>	<b>10,578.5</b>
<b>Change in net assets</b>	<b>13,329.3</b>	<b>14,333.0</b>	<b>10,040.7</b>
<b>Net assets, beginning of year</b>	<b>83,339.5</b>	<b>69,006.3</b>	<b>58,965.6</b>
<b>Net assets, end of year</b>	<b>\$ 96,668.8</b>	<b>\$ 83,339.5</b>	<b>\$ 69,006.3</b>

## Financial Statements

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# State of Delaware Drinking Water Revolving Loan Fund

## Statements of Fund Net Assets

<i>June 30,</i>	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 20,840,154	\$ 21,069,862
Loans receivable - current portion	4,225,250	2,157,022
Interest receivable - loans	1,006,607	579,026
Federal grants receivable	1,810,004	26,176
State grants receivable	3,275,000	3,294,085
<b>Total Current Assets</b>	<b>31,157,015</b>	<b>27,126,171</b>
<b>Noncurrent Assets</b>		
Loans receivable - net of current portion	76,272,361	63,953,111
<b>Total Assets</b>	<b>\$ 107,429,376</b>	<b>\$ 91,079,282</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Vouchers payable	\$ 2,028,286	\$ 26,176
<b>Long-Term Liabilities</b>		
Deferred revenue - state match	8,732,267	7,713,625
<b>Total Liabilities</b>	<b>10,760,553</b>	<b>7,739,801</b>
<b>Net Assets</b>		
Net assets - unrestricted	96,668,823	83,339,481
<b>Total Liabilities and Net Assets</b>	<b>\$ 107,429,376</b>	<b>\$ 91,079,282</b>

*See accompanying independent auditors' report and notes to financial statements.*

**State of Delaware Drinking Water Revolving Loan Fund**  
**Statements of Revenues, Expenses and Changes in Fund Net Assets**

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<i>Years ended June 30,</i>	2011	2010
<b>Operating Revenue</b>		
Interest income - loans	\$ 656,811	\$ 944,914
Interest income - administrative fees	656,811	944,914
Loan origination fees	50,000	20,888
<b>Total Operating Revenue</b>	<b>1,363,622</b>	<b>1,910,716</b>
<b>Operating Expenses</b>		
Salaries and related benefits	704,266	608,877
Contract services	779,828	943,652
Indirect costs	51,792	52,084
Subgrants	722,745	859,616
Supplies	40,473	30,133
Equipment	-	13,956
Training	2,200	(6,000)
Travel	10,597	6,767
<b>Total Operating Expenses</b>	<b>2,311,901</b>	<b>2,509,085</b>
<b>Operating loss</b>	<b>(948,279)</b>	<b>(598,369)</b>
<b>Nonoperating Revenues and Expenses</b>		
Interest income - cash	197,495	208,885
Grant revenue	13,312,226	15,999,976
Grant revenue - set asides	2,311,902	2,484,885
ARRA loan forgiveness	(3,239,959)	(5,329,923)
State match	1,695,957	1,567,730
<b>Total Nonoperating Revenue and Expenses</b>	<b>14,277,621</b>	<b>14,931,553</b>
<b>Change in Net Assets</b>	<b>13,329,342</b>	<b>14,333,184</b>
<b>Net Assets, beginning of year</b>	<b>83,339,481</b>	<b>69,006,297</b>
<b>Net Assets, end of year</b>	<b>\$ 96,668,823</b>	<b>\$ 83,339,481</b>

*See accompanying independent auditors' report and notes to financial statements.*

# State of Delaware Drinking Water Revolving Loan Fund

## Statements of Cash Flows

<i>Years ended June 30,</i>	2011	2010
<b>Operating Activities</b>		
Loan repayments	\$ 1,250,830	\$ 1,581,513
Interest received from borrowers	886,041	1,724,495
Loan origination fees	50,000	20,888
Loan disbursements	(14,231,239)	(13,043,470)
Salaries and related benefits paid	(704,266)	(608,877)
General expenses paid	(1,607,636)	(1,900,208)
<b>Net cash for operating activities</b>	<b>(14,356,270)</b>	<b>(12,225,659)</b>
<b>Investing Activities</b>		
Interest received from cash deposits	197,495	208,885
<b>Net cash from investing activities</b>	<b>197,495</b>	<b>208,885</b>
<b>Noncapital Financing Activities</b>		
Loan repayment from Drinking Water Grant Fund	-	240,683
Grants received from EPA	11,221,559	12,382,032
Advances from (repayments to) State of Delaware	(26,176)	561,071
Grants received from State of Delaware	2,733,684	1,568,599
<b>Net cash from noncapital financing activities</b>	<b>13,929,067</b>	<b>14,752,385</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(229,708)</b>	<b>2,735,611</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>21,069,862</b>	<b>18,334,251</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 20,840,154</b>	<b>\$ 21,069,862</b>

# State of Delaware Drinking Water Revolving Loan Fund

## Statements of Cash Flows

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<i>Years ended June 30,</i>	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
<b>Cash Flows From Operating Activities</b>		
Operating loss	\$ (948,279)	\$ (598,369)
<b>Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities</b>		
Loans receivable	(15,008,695)	(11,461,957)
Interest receivable	(427,581)	(165,333)
Vouchers payable	2,028,286	-
<b>Net Cash Used by Operating Activities</b>	<b>\$ (14,356,270)</b>	<b>\$ (12,225,659)</b>

*See accompanying independent auditors' report and notes to financial statements.*

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

### 1. 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 and have been consistently applied in the preparation of the financial statements.

#### *General Background*

The Fund was established through Chapter 79, Title 29, Subsection 15 of the Delaware Code, 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 administered by the State of Delaware, Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance and managing the coordination of the Fund to meet the objectives of the Safe Drinking Water Act.

The Fund is funded through federal capitalization grants as established under Section 1452 of the Safe Drinking Water Act. The Act requires the State of Delaware to provide matching funds equal to 20 percent of federal funds received. The grants were issued as follows:

Grant Year	Total Available Funding	Federal Portion	State Portion
1997	\$ 15,070,560	\$ 12,558,800	\$ 2,511,760
1999	17,502,120	14,585,100	2,917,020
2001	9,308,400	7,757,000	1,551,400
2002	9,346,920	7,789,100	1,557,820
2003	9,663,000	8,052,500	1,610,500
2004	9,604,920	8,004,100	1,600,820
2005	9,963,720	8,303,100	1,660,620
2006	9,942,600	8,285,500	1,657,100
2007	9,875,160	8,229,300	1,645,860
2008	19,650,000	16,375,000	3,275,000
2009	9,894,510	8,245,425	1,649,085
2010	16,287,600	13,573,000	2,714,600
ARRA	19,500,000	19,500,000	-
Total	\$ 165,609,510	\$ 141,257,925	\$ 24,351,585

The federal grant years are one year behind the Fund's fiscal year. Therefore, federal year 2010 corresponds to the Fund's 2011 fiscal year.

See accompanying independent auditors' report

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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For the 2008 grant's State match, the State used revolving loan repayment funds rather than 21st Century Fund monies, as it had done previously, due to constraints on the 21st Century Fund in that particular year. The State plan is to reimburse the revolving loan repayments with the 21st Century Funds in 2012. The amount due from the 21st Century Funds is reflected on the Statement of Fund Net Assets as State Grants Receivable. The State match for 2009, 2010, and 2011 were paid from the 21st Century Funds.

The Fund received a grant of \$19,500,000 from the American Recovery and Reinvestment Act (ARRA) near the end of fiscal year 2009. The funds are available to be drawn for specific purposes. At June 30, 2011, approximately 81.2% of ARRA funding was used for specific purposes. The ARRA funds do not have a State matching requirement.

The Fund is accounted for as an enterprise fund. The Fund is made up of several sub-funds, each of which is considered a separate accounting entity. The sub-funds are described below:

### Loan Fund

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

### Set-aside Sub-Funds

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

There are four such funds.

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

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

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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

### ***Type of Entity and Division of Funds***

The Fund's activities are accounted for as a distinct operating unit within the DPH. 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 of Delaware that is attributable to the transactions of the Fund.

### ***Measurement Focus and Basis of Accounting***

The accompanying financial statements of the Fund have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standard Board (GASB). The Fund's activities are financed and operated as an enterprise fund. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Fund's policy to first apply the expense towards restricted resources and then toward unrestricted resources.

The Fund has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Fund has elected not to follow subsequent private-sector (FASB) guidance.

### ***Recognition of Revenues***

By the terms of agreements between the State and the EPA, which commenced in fiscal year 1999, federal assistance provided to the Fund is earned when qualified loans and expenditures are made to eligible public water systems. Matching funds provided by the State are considered earned by the same criteria. However, in fiscal year 2002, the State's matching requirement for the Set-aside Funds was met using designated expenditures made for other programs; therefore, no State monies were required to be provided to the Set-aside Funds. The State's matching requirement for the Loan Fund was made using State General Fund monies.

Amounts earned in excess of grant monies received from EPA and the State are recorded as grants receivable, whereas an excess of grant monies received over the amounts earned is recorded as deferred grant revenue. A right of set-off does not exist between the State and EPA.

### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Fund considers short-term investments with an original maturity of three months or less to be cash equivalents (See Note 2).

### ***Operating and Non-operating Revenues***

The Fund considers revenue from its lending activities in the Loan sub-fund to be operating. It considers revenue from grants and interest income received on cash deposits to be non-operating.

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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### *Use of Estimates*

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

## **2. Cash and Cash Equivalents**

### *Cash*

"Cash and cash equivalents," as reported on the statement of net assets, represents the Fund's allocated share of deposits and investments under the control of the Treasurer of the State of Delaware. All cash deposited with the Treasurer by state agencies is maintained by the Treasurer in various pooled funds. The State Treasurer invests the deposited cash including cash float in short-term securities and other investments. The Fund may deposit or withdraw cash at any time without prior notice or penalty. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average daily cash balance. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

### *The Cash Management Policy Board*

The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware," of the State's 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 with certain limited exceptions.

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The State's complete Cash Management Policy is available on the Internet at <http://treasurer.delaware.gov>.

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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### *Custodial Credit Risk*

#### **Collateralization Requirements**

All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% 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:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger 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.

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# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

### 3. Available Funding, Disbursements and Remaining Balance by Funding Year

As of June 30, 2011, the Fund had federal grants totaling \$141,257,925, from which it had made disbursements of \$97,357,854. The breakdown for all grants is as follows:

#### Loan Fund

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 9,288,036	\$ 9,288,036	\$ -
1999	11,642,600	11,642,600	-
2001	5,852,330	5,852,330	-
2002	5,653,979	5,653,979	-
2003	6,190,765	6,190,765	-
2004	6,164,343	6,164,343	-
2005	6,281,257	6,281,257	-
2006	6,229,432	6,226,299	3,133
2007	5,957,099	1,771,938	4,185,161
2008	15,562,690	-	15,562,690
2009	5,735,685	-	5,735,685
2010	11,108,400	-	11,108,400
ARRA	18,778,138	15,605,931	3,172,207
<b>Total</b>	<b>\$ 114,444,754</b>	<b>\$ 74,677,478</b>	<b>\$ 39,767,276</b>

#### Set-aside Funds

##### 2% Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 251,176	\$ 251,176	\$ -
1999	291,702	291,702	-
2001	155,140	155,140	-
2002	155,782	155,782	-
2003	75,133	75,133	-
2004	86,937	86,937	-
2005	166,062	166,062	-
2006	149,588	149,588	-
2007	164,586	139,865	24,721
2008	-	-	-
2009	147,400	57,420	89,980
2010	154,700	-	154,700
ARRA	-	-	-
<b>Total</b>	<b>\$ 1,798,206</b>	<b>\$ 1,528,805</b>	<b>\$ 269,401</b>

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

### 4% Administration

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 502,352	\$ 502,352	\$ -
1999	583,404	583,404	-
2001	310,280	310,280	-
2002	311,564	311,564	-
2003	305,960	305,960	-
2004	215,566	215,566	-
2005	332,124	332,124	-
2006	329,284	329,284	-
2007	329,172	258,715	70,457
2008	-	-	-
2009	325,840	202,553	123,287
2010	480,780	92,220	388,560
ARRA	721,862	379,154	342,708
<b>Total</b>	<b>\$ 4,748,188</b>	<b>\$ 3,823,176</b>	<b>\$ 925,012</b>

### 10% Program Management

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 633,416	\$ 633,416	\$ -
1999	1,458,510	1,458,510	-
2001	775,700	775,700	-
2002	778,910	778,910	-
2003	805,250	805,250	-
2004	736,904	736,904	-
2005	830,310	830,310	-
2006	811,893	811,893	-
2007	822,930	776,951	45,979
2008	500,000	367,556	132,444
2009	814,600	489,810	324,790
2010	928,512	110,875	817,637
ARRA	-	-	-
<b>Total</b>	<b>\$ 9,896,935</b>	<b>\$ 8,576,085</b>	<b>\$ 1,320,850</b>

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

### 15% Local Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 1,883,820	\$ 1,883,820	\$ -
1999	608,884	608,884	-
2001	663,550	663,550	-
2002	888,865	888,865	-
2003	675,392	675,392	-
2004	800,350	800,350	-
2005	693,347	693,347	-
2006	765,303	765,303	-
2007	955,513	931,669	23,844
2008	312,310	201,679	110,631
2009	1,221,900	512,925	708,975
2010	900,608	126,526	774,082
ARRA	-	-	-
<b>Total</b>	<b>\$ 10,369,842</b>	<b>\$ 8,752,310</b>	<b>\$ 1,617,532</b>

### Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997	\$ 12,558,800	\$ 12,558,800	\$ -
1999	14,585,100	14,585,100	-
2001	7,757,000	7,757,000	-
2002	7,789,100	7,789,100	-
2003	8,052,500	8,052,500	-
2004	8,004,100	8,004,100	-
2005	8,303,100	8,303,100	-
2006	8,285,500	8,282,367	3,133
2007	8,229,300	3,879,138	4,350,162
2008	16,375,000	569,235	15,805,765
2009	8,245,425	1,262,708	6,982,717
2010	13,573,000	329,621	13,243,379
ARRA	19,500,000	15,985,085	3,514,915
<b>Total</b>	<b>\$ 141,257,925</b>	<b>\$ 97,357,854</b>	<b>\$ 43,900,071</b>

#### 4. Federal Grants Receivable

Grants receivable of \$1,810,004 and \$26,176, as of June 30, 2011 and 2010, respectively, represent amounts due from the Federal government for amounts expended or accrued.

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

### 5. Loans Receivable

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

	Binding Commitments	Loans Receivable	
		2011	2010
<b>Municipal:</b>			
Town of Felton	\$ 370,000	\$ 192,922	\$ 222,434
Town of Frankford	1,095,000	831,027	860,328
Town of Blades	515,300	380,386	388,499
Town of Milton	643,370	498,820	530,909
City of Wilmington	63,308,501	43,657,765	35,066,311
Town of Greenwood	1,460,230	1,441,009	1,328,532
Town of Dagsboro	1,400,000	1,169,507	1,193,555
Town of Millsboro	5,139,700	4,714,407	4,366,094
Town of Laurel	3,595,300	3,124,101	3,062,944
Town of Smyrna	7,279,000	5,709,892	4,203,477
City of Lewes	2,016,000	1,053,149	1,106,136
Town of Clayton	850,000	767,115	800,942
Town of Bridgeville	250,000	206,830	195,433
City of Rehoboth Beach	5,000,000	4,682,248	4,789,621
City of Seaford	2,729,408	2,428,562	746,085
City of Dover	2,404,017	480,528	-
Town of Delmar	400,206	26,235	-
Town of Georgetown	556,500	85,125	87,145
Total Municipal:	99,012,532	71,449,628	58,948,445
<b>Investor-owned:</b>			
Artesian Water Company	16,580,924	8,441,465	5,841,001
Tidewater Utilities, Inc.	10,128,753	8,896,920	6,354,172
J.H. Wilkerson & Son, Inc.	410,800	258,576	275,103
Total Investor-owned	27,120,477	17,596,961	12,470,276
<b>Mobile Home Park:</b>			
Innovative Construction	34,321	20,274	21,336
	<u>\$ 126,167,330</u>	89,066,863	71,440,057
Less: ARRA reserve		8,569,252	5,329,924
Loans receivable		80,497,611	66,110,133
Less: loans receivable - current portion		4,225,250	2,157,022
Loans receivable - net of current portion		\$ 76,272,361	\$ 63,953,111

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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Interest charged on these loans ranges from 1.50% to 4.46%. Interest earned on loans receivable was \$1,313,622 and \$1,889,828 for the years ending June 30, 2011 and 2010, 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.

There is no allowance for doubtful accounts as of June 30, 2011 and 2010. As of June 30, 2011 and 2010, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2011 and 2010. There has been no history of significant bad debts or uncollectible accounts.

The ARRA reserve of \$8,569,253 represents expenditures for loans which will be reclassified as grants to the municipalities at the end of the respective construction periods.

### 6. Deferred Revenue - State Match

As of June 30, 2011, the Fund had total available state match funding in its separate cash account as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 2,511,760	\$ 2,511,760	\$ -
1999	2,917,020	2,917,020	-
2001	1,551,400	1,551,400	-
2002	1,557,820	1,557,820	-
2003	1,610,500	1,610,500	-
2004	1,600,820	1,600,820	-
2005	1,660,620	1,660,620	-
2006	1,657,100	1,657,100	-
2007	1,645,860	552,278	1,093,582
2008	3,275,000	-	3,275,000
2009	1,649,085	-	1,649,085
2010	2,714,600	-	2,714,600
<b>Total</b>	<b>\$ 24,351,585</b>	<b>\$ 15,619,318</b>	<b>\$ 8,732,267</b>

Interest earned on cash deposits totals \$197,495 and \$208,885 for the years ending June 30, 2011 and 2010, respectively.

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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### 7. Pension

Employees of the Fund are considered employees of the State of Delaware ("State") and are covered under The State Employees' Pension Plan. Total pension cost of \$76,916 for 2011 and \$62,199 for 2010 is included in salaries and related benefits. Certain significant plan provisions follow:

Detailed information regarding this plan is available in the Delaware Code and the Rules and Regulations of the Board of Pension Trustees.

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.

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: Five (5) years of credited service.

Retirement: 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.

Disability Benefits: 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.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

Contributions:

Employer - Determined by Board of Pension Trustees.

Employee - 3% of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

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.

# State of Delaware Drinking Water Revolving Loan Fund

## Notes to Financial Statements

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### 8. Commitments and Contingencies

#### *Loans*

The Fund has met its prior binding commitments (equal to at least one hundred twenty percent (120%) of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2011, there were cumulative binding commitments of \$126,167,330.

#### *Cost Reimbursement Contracts*

The Fund derives all of its non-operating revenue from EPA Capitalization Grants for State Revolving Fund program and mandatory state matching funds which are contracts based on the reimbursement of 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.

### 9. Risk Management

The Fund is insured under the State of Delaware's insurance plans. The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. 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, 2011, there were no outstanding or pending claims against the Fund.

### 10. Subsequent Events

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

### 11. Restatement

Grant revenue in the prior year's financial statements has been restated to conform to the current year's presentation. The Fund believes that the new presentation more accurately reflects its results by presenting ARRA loan forgiveness expense separately from grant revenue. The effect of this change is to increase grant revenue by \$5,329,923 and to increase ARRA loan forgiveness expense by \$5,329,923 for the year ended June 30, 2010.

## Supplemental Information

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STATE OF DELAWARE  
DRINKING WATER REVOLVING LOAN FUND  
STATEMENT OF FUND NET ASSETS BY FUND  
JUNE 30, 2011

	Loan Fund	2% Technical Assistance	4% Admin- istration	10% Program Management	15% Local Assistance	Total
<b>CURRENT ASSETS</b>						
Cash	\$ 20,840,154	\$ -	\$ -	\$ -	\$ -	\$ 20,840,154
Loans receivable - current portion	4,225,250	-	-	-	-	4,225,250
Loan interest receivable	1,006,607	-	-	-	-	1,006,607
Federal grants receivable	1,810,004	-	-	-	-	1,810,004
State grants receivable	3,275,000	-	-	-	-	3,275,000
<b>Total current assets</b>	<b>31,157,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,157,015</b>
<b>NONCURRENT ASSETS</b>						
Loans receivable - net of current portion	76,272,361	-	-	-	-	76,272,361
<b>Total assets</b>	<b>\$ 107,429,376</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107,429,376</b>
<b>CURRENT LIABILITIES</b>						
Vouchers payable	\$ 2,028,286	\$ -	\$ -	\$ -	\$ -	\$ 2,028,286
<b>LONG-TERM LIABILITIES</b>						
Deferred revenue - state match	8,732,267	-	-	-	-	8,732,267
<b>Total liabilities</b>	<b>10,760,553</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,760,553</b>
<b>NET ASSETS - unrestricted</b>	<b>96,668,823</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96,668,823</b>
<b>Total liabilities and net assets</b>	<b>\$ 107,429,376</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107,429,376</b>

STATE OF DELAWARE  
DRINKING WATER REVOLVING LOAN FUND  
STATEMENT OF FUND NET ASSETS BY FUND  
JUNE 30, 2010

	Loan Fund	2% Technical Assistance	Restated			Total
			4% Admin- istration	10% Program Management	15% Local Assistance	
<b>CURRENT ASSETS</b>						
Cash	\$ 21,069,862	\$ -	\$ -	\$ -	\$ -	\$ 21,069,862
Loans receivable - current portion	2,157,022	-	-	-	-	2,157,022
Loan interest receivable	579,026	-	-	-	-	579,026
Federal grants receivable	-	4,921	-	-	21,255	26,176
State grants receivable	3,294,085	-	-	-	-	3,294,085
<b>Total current assets</b>	<b>27,099,995</b>	<b>4,921</b>	<b>-</b>	<b>-</b>	<b>21,255</b>	<b>27,126,171</b>
<b>NONCURRENT ASSETS</b>						
Loans receivable - net of current portion	63,953,111	-	-	-	-	63,953,111
<b>Total assets</b>	<b>\$ 91,053,106</b>	<b>\$ 4,921</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,255</b>	<b>\$ 91,079,282</b>
<b>CURRENT LIABILITIES</b>						
Vouchers payable	\$ -	\$ 4,921	\$ -	\$ -	\$ 21,255	\$ 26,176
<b>LONG-TERM LIABILITIES</b>						
Deferred revenue - state match	7,713,625	-	-	-	-	7,713,625
<b>Total liabilities</b>	<b>7,713,625</b>	<b>4,921</b>	<b>-</b>	<b>-</b>	<b>21,255</b>	<b>7,739,801</b>
<b>NET ASSETS - unrestricted</b>	<b>83,339,481</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,339,481</b>
<b>Total liabilities and net assets</b>	<b>\$ 91,053,106</b>	<b>\$ 4,921</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,255</b>	<b>\$ 91,079,282</b>

STATE OF DELAWARE  
DRINKING WATER REVOLVING LOAN FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY FUND  
FOR THE YEAR ENDED JUNE 30, 2011

	Loan Fund	2% Technical Assistance	4% Adminis- tration	10% Program Management	15% Local Assistance	Total
<b>OPERATING REVENUE</b>						
Interest income - loans	\$ 656,811	\$ -	\$ -	\$ -	\$ -	\$ 656,811
Interest income - administrative fees	656,811	-	-	-	-	656,811
Loan origination fees	50,000	-	-	-	-	50,000
<b>Total operating revenue</b>	<b>1,363,622</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,363,622</b>
<b>OPERATING EXPENSES</b>						
Salaries and related benefits	-	2,294	350,929	184,019	167,025	704,266
Contract services	-	135,342	149,972	285,185	209,329	779,828
Indirect costs	-	242	30,950	11,828	8,772	51,792
Subgrants	-	-	28,895	591,046	102,804	722,745
Supplies	-	-	10	20,373	20,090	40,473
Equipment	-	-	-	-	-	-
Training	-	-	2,200	-	-	2,200
Travel	-	-	2,453	5,705	2,439	10,597
<b>Total operating expenses</b>	<b>-</b>	<b>137,878</b>	<b>565,409</b>	<b>1,098,156</b>	<b>510,459</b>	<b>2,311,901</b>
<b>Operating income (loss)</b>	<b>1,363,622</b>	<b>(137,878)</b>	<b>(565,409)</b>	<b>(1,098,156)</b>	<b>(510,459)</b>	<b>(948,279)</b>
<b>NON-OPERATING REVENUE</b>						
Interest income - cash	197,495	-	-	-	-	197,495
Grant revenue	13,312,226	-	-	-	-	13,312,226
Grant revenue - set asides	-	137,878	565,409	1,098,156	510,459	2,311,902
ARRA loan forgiveness	(3,239,959)	-	-	-	-	(3,239,959)
State match	1,695,957	-	-	-	-	1,695,957
<b>Total non-operating revenue</b>	<b>11,965,720</b>	<b>137,878</b>	<b>565,409</b>	<b>1,098,156</b>	<b>510,459</b>	<b>14,277,621</b>
<b>CHANGE IN NET ASSETS</b>	<b>13,329,342</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,329,342</b>
Net assets, beginning of year	83,339,481	-	-	-	-	83,339,481
<b>Net assets, end of year</b>	<b>\$ 96,668,823</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 96,668,823</b>

STATE OF DELAWARE  
DRINKING WATER REVOLVING LOAN FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY FUND  
FOR THE YEAR ENDED JUNE 30, 2010

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
<b>OPERATING REVENUE</b>						
Interest income - loans	\$ 944,914	\$ -	\$ -	\$ -	\$ -	\$ 944,914
Interest income - administrative fees	944,914	-	-	-	-	944,914
Loan origination fees	20,888	-	-	-	-	20,888
<b>Total operating revenue</b>	<b>1,910,716</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,910,716</b>
<b>OPERATING EXPENSES</b>						
Salaries and related benefits	-	4,418	334,069	146,309	124,081	608,877
Contract services	24,200	151,142	160,655	382,258	225,397	943,652
Indirect costs	-	457	30,603	7,655	13,369	52,084
Subgrants	-	-	115,676	253,021	490,919	859,616
Supplies	-	-	2,863	20,735	6,535	30,133
Equipment	-	-	-	13,956	-	13,956
Training	-	-	-	-	(6,000)	(6,000)
Travel	-	-	2,276	1,027	3,464	6,767
<b>Total operating expenses</b>	<b>24,200</b>	<b>156,017</b>	<b>646,142</b>	<b>824,961</b>	<b>857,765</b>	<b>2,509,085</b>
<b>Operating income (loss)</b>	<b>1,886,516</b>	<b>(156,017)</b>	<b>(646,142)</b>	<b>(824,961)</b>	<b>(857,765)</b>	<b>(598,369)</b>
<b>NON-OPERATING REVENUE</b>						
Interest income - cash	208,885	-	-	-	-	208,885
Grant revenue	10,670,053	-	-	-	-	10,670,053
Grant revenue - set asides	-	156,017	646,142	824,961	857,765	2,484,885
State match	1,567,730	-	-	-	-	1,567,730
<b>Total non-operating revenue</b>	<b>12,446,668</b>	<b>156,017</b>	<b>646,142</b>	<b>824,961</b>	<b>857,765</b>	<b>14,931,553</b>
<b>CHANGE IN NET ASSETS</b>	<b>14,333,184</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,333,184</b>
Net assets, beginning of year	69,006,297	-	-	-	-	69,006,297
<b>Net assets, end of year</b>	<b>\$ 83,339,481</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 83,339,481</b>

STATE OF DELAWARE  
DRINKING WATER  
REVOLVING LOAN FUND  
STATEMENTS OF FUND NET ASSETS BY CLASSIFICATION  
JUNE 30, 2011 AND 2010

	2011				2010			
	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total
	<b>ASSETS</b>							
<b>CURRENT ASSETS</b>								
Cash	\$ -	\$ 15,122,209	\$ 5,717,945	\$ 20,840,154	\$ -	\$ 15,647,292	\$ 5,422,570	\$ 21,069,862
Loans receivable - current portion	-	4,225,250	-	4,225,250	-	2,157,022	-	2,157,022
Loan interest receivable	-	503,304	-	503,304	-	289,513	-	289,513
Administrative fees receivable	-	-	503,304	503,304	-	-	289,513	289,513
Loan from Drinking Water Grant Fund	-	-	-	-	-	-	-	-
Federal grants receivable	-	1,810,004	-	1,810,004	26,176	-	-	26,176
Federal advances	-	-	-	-	-	-	-	-
State grants receivable	-	3,275,000	-	3,275,000	-	3,294,085	-	3,294,085
	-	24,935,766	6,221,248	31,157,015	26,176	21,387,912	5,712,083	27,126,171
<b>NONCURRENT ASSETS</b>								
Loans receivable - net of current portion	-	76,272,361	-	76,272,361	-	63,953,111	-	63,953,111
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ 101,208,127</b>	<b>\$ 6,221,248</b>	<b>\$ 107,429,376</b>	<b>\$ 26,176</b>	<b>\$ 85,341,023</b>	<b>\$ 5,712,083</b>	<b>\$ 91,079,282</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
State advances	-	2,028,286	-	2,028,286	26,176	-	-	26,176
<b>LONG-TERM LIABILITIES</b>								
Deferred revenue - state match	-	8,732,267	-	8,732,267	-	7,713,625	-	7,713,625
Total liabilities	-	10,760,553	-	12,788,839	26,176	7,713,625	-	7,765,977
<b>NET ASSETS - unrestricted</b>	<b>-</b>	<b>90,447,574</b>	<b>6,221,248</b>	<b>96,668,823</b>	<b>-</b>	<b>77,627,398</b>	<b>5,712,083</b>	<b>83,339,481</b>
Total liabilities and net assets	\$ -	\$ 101,208,127	\$ 6,221,248	\$ 107,429,376	\$ 26,176	\$ 85,341,023	\$ 5,712,083	\$ 91,079,282

STATE OF DELAWARE  
DRINKING WATER  
REVOLVING LOAN FUND  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY CLASSIFICATION  
YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010			
	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Non Federal Administrative Fund	Total
<b>OPERATING REVENUES</b>								
Interest income - loans	\$ -	\$ 656,811	\$ -	\$ 656,811	\$ -	\$ 944,914	\$ -	\$ 944,914
Interest income - administrative fees	-	-	656,811	656,811	-	-	944,914	944,914
Loan origination fees	-	50,000	-	50,000	-	20,969	(81)	20,888
	-	706,811	656,811	1,363,622	-	965,883	944,833	1,910,716
<b>OPERATING EXPENSES</b>								
Salaries and related benefits	704,266	-	-	704,266	608,877	-	-	608,877
Contract services	779,828	-	-	779,828	919,452	24,200	-	943,652
Indirect costs	51,792	-	-	51,792	52,084	-	-	52,084
Subgrants	722,745	-	-	722,745	859,616	-	-	859,616
Supplies	40,473	-	-	40,473	30,133	-	-	30,133
Equipment	-	-	-	-	13,956	-	-	13,956
Training	2,200	-	-	2,200	(6,000)	-	-	(6,000)
Travel	10,597	-	-	10,597	6,767	-	-	6,767
	-	-	-	-	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>2,311,901</b>	<b>-</b>	<b>-</b>	<b>2,311,901</b>	<b>2,484,885</b>	<b>24,200</b>	<b>-</b>	<b>2,509,085</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(2,311,901)</b>	<b>706,811</b>	<b>656,811</b>	<b>(948,279)</b>	<b>(2,484,885)</b>	<b>941,683</b>	<b>944,833</b>	<b>(598,369)</b>
<b>NONOPERATING REVENUE (EXPENSE)</b>								
Interest income - Cash	-	159,568	37,927	197,495	-	143,540	65,345	208,885
Contributions - EPA	2,311,901	13,312,226	-	15,624,127	2,484,885	15,999,976	-	18,484,861
ARRA Loan Forgiveness	-	(3,239,959)	-	(3,239,959)	-	(5,329,923)	-	(5,329,923)
Contributions - State	-	1,695,957	-	1,695,957	-	1,567,730	-	1,567,730
	2,311,901	11,927,792	37,927	14,277,620	2,484,885	12,381,323	65,345	14,931,553
<b>CHANGE IN NET ASSETS</b>	<b>-</b>	<b>12,634,603</b>	<b>694,738</b>	<b>13,329,342</b>	<b>-</b>	<b>13,323,006</b>	<b>1,010,178</b>	<b>14,333,184</b>
Net assets, beginning of year	-	77,475,878	5,863,603	83,339,481	-	64,152,872	4,853,425	69,006,297
<b>Net assets, end of year</b>	<b>\$ -</b>	<b>\$ 90,110,481</b>	<b>\$ 6,558,341</b>	<b>\$ 96,668,823</b>	<b>\$ -</b>	<b>\$ 77,475,878</b>	<b>\$ 5,863,603</b>	<b>\$ 83,339,481</b>



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Management  
Drinking Water Revolving Loan Fund  
Dover, Delaware

We have audited the financial statements of the Drinking Water Revolving Loan Fund (the "Fund") of the State of Delaware as of and for the year ended June 30, 2011, and have issued our report thereon dated June 8, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [FINDING 11-01 and 11-02].

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Cont'd.)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Fund's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Fund's management, Environmental Protection Agency, Office of Auditor of Accounts, Office of the Governor, Office of the Controller General, Office of Management and Budget, Office of the Attorney General, and the Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29Del.C., Section 10002(d), this report is a public record and its distribution is not limited.

*BDO USA, LLP*

June 8, 2012

# State of Delaware Drinking Water Revolving Loan Fund

## Schedule of Findings and Questioned Costs

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### Current Year Findings:

#### FINDING 11-01: Audit Adjustments

**Condition:** A significant number of large adjustments were required to be made to the Fund's accrual basis general ledger during the audit.

The Fund utilizes two systems to track its activity. The first is the State accounting system, First State Financials (FSF). This was implemented on July 1, 2010, and replaced the former system, Delaware Financial Management System (DFMS). Both FSF and DFMS report on a budgetary, cash-basis of accounting. Additionally, the Fund uses QuickBooks as its internal, accrual basis, accounting system.

The conversion from DFMS to FSF created some issues in that new accounts were created, old accounts were no longer used, and the nature of certain accounts changed. In addition, the Fund lost its accountant during the fiscal year and certain accounts in Quickbooks were not properly updated and reconciled at year-end. Certain cash, grant revenue, and State match accounts in the FSF system were not properly recorded in the QuickBooks General Ledger. In addition, loan balances were not properly maintained in the QuickBooks General Ledger and cash per the general ledger was not regularly reconciled to FSF balances.

**Criteria:** Proper internal control procedures require that the Fund's accrual basis general ledger be in balance with the supporting loan detail and with the cash balances and transactions reported in the FSF system. An accurate, up-to-date accrual basis general ledger is also required by the Environmental Protection Agency, from which the Fund receives most of its grants, to account for and report on its balances and operations on the accrual basis. These accounts should be reconciled on a periodic basis, and any differences adjusted or explained.

**Cause:** A combination of the new software implementations and the staff turnover accounted for the need for the large number of adjustments to the accrual basis Quickbooks general ledger during the audit.

**Effect:** A number of accounts in the QuickBooks General Ledger did not agree to their corresponding accounts in FSF. This required the Fund's new accountant to post a large number of transactions after year-end to bring the General Ledger up to date on a cash basis. In addition, there were 20 adjusting journal entries required to correct the accrual basis balances in QuickBooks. The bulk of the entries affected the loan receivable and grant revenue accounts. Loan receivable required \$20,772,575 in adjustments to bring the account to the correct balance of \$80,497,611 (loans receivable were understated on the Fund's accrual basis Quickbooks by 35%). Grant revenue required \$2,533,365 in adjustments to bring the correct balance to \$15,624,159 (revenue was understated on the Fund's books by 20%).

# State of Delaware Drinking Water Revolving Loan Fund

## Schedule of Findings and Questioned Costs

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### FINDING 11-01 (cont'd):

#### RECOMMENDATION:

We recommend that:

1. The account balances in QuickBooks be reviewed and reconciled monthly with those in FSF.
2. Account balances in QuickBooks should be updated for all activity in the loan accounting software and also reconciled on a monthly basis to the loan subsidiary.

#### AUDITEE'S PLAN FOR CORRECTIVE ACTION:

1. In order to strengthen internal controls over the monthly financial reconciliation process between account balances in QuickBooks for accrual purposes and the First State Financials (FSF) system and to ensure compliance with Environmental Protection Agency regulations, the Drinking Water Program (DWP) Accounting Specialist will complete all QuickBooks accrual entries and account balances monthly. In order to ensure proper separation of duties, the Drinking Water Fiscal Management Analyst will perform reconciliations monthly between QuickBooks and FSF. The DWP Fiscal Management Analyst will forward a detailed monthly reconciliation report to the DWP Manager with any exceptions noted and corrective action taken on the monthly reconciliation. A copy of this report will be forwarded monthly to the Division of Public Health (DPH) Budget and Financial Bureau Chief.
2. Additionally, the monthly reconciliation process and report will include all activity in the loan accounting software and will be reconciled to the loan subsidiary on a monthly basis. Any exceptions will be noted in the monthly reconciliation report for corrective action.

### FINDING 11-02: Loan Reconciliation

**Condition:** The Fund is unable to easily reconcile loan subsidiary balances to the general ledger control account because the present Excel system tracks individual loans but does not roll them up into a Fund-wide total. The present system also does not allow for the mailing of bills and statements to borrowers. Additionally, current loan balances for all 54 loans are not recorded in Quickbooks, which is the Fund's internal accounting system.

**Criteria:** Proper internal control procedures require that the Fund's loan activity and balances be appropriately tracked by management and reconciled with the subsidiary balances.

**Cause:** The loan software used to track and manage the Fund's loan balances was changed during fiscal year 2011. The Fund had used a loan software that was also used by the Clean Water State Revolving Loan Fund in the State of Delaware's Department of Natural Resources and Environmental Control (DNREC). The software had been managed by DNREC staff for both programs. In addition, as mentioned in Finding 11-01, there was significant turnover in staffing, and a new accountant was not put into place until after fiscal year end. The reconciliations were not performed, resulting in adjustments previously mentioned in Finding 11-01.

# State of Delaware Drinking Water Revolving Loan Fund

## Schedule of Findings and Questioned Costs

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### FINDING 11-02 (cont'd):

During fiscal year 2011, the two departments decided to separate the loan accounting and the Fund began using Excel to maintain its loans

**Effect:** While Excel has certain advantages, such as ease of use, it lacks certain features and controls that the previous software possessed. The previous software could produce reports at both a detail and combined level. It could also produce bills and statements for the borrowers. Further, this may lead to delayed billings and invoicing to the municipalities.

### RECOMMENDATION:

We recommend that the Fund consider acquiring a loan accounting subsidiary software that is tailored to its needs and provides more functionality than its present system to allow management to adequately bill, monitor and report on the loans for which it is responsible. Additionally, the Fund should track each loan separately in Quickbooks and post disbursements and collections when they occur.

### AUDITEE'S PLAN FOR CORRECTIVE ACTION:

The Drinking Water Fund will explore opportunities relative to loan accounting subsidiary software that will be more tailored to the needs of the Drinking Water Fund and provides enhanced functionality relative to billing, monitoring, and reporting on loans.

### Prior Year Findings:

None