

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

\*\*\*\*\*

**Financial Statements  
Years Ended June 30, 2015 and 2014**

Report Issued: December 7, 2015

**Table of Contents**

\*\*\*\*\*

	Pages
<b>Independent Auditor's Report</b>	1 - 2
<b>Management's Discussion and Analysis</b>	3 - 7
<b>Financial Statements</b>	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 22
<b>Report Required by Government Auditing Standards</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance with <i>Government         Auditing Standards</i>	23 - 24
Schedule of Findings and Responses	25

\*\*\*\*\*

## Independent Auditor's Report

To the Management  
Delaware Water Pollution Control  
Revolving Loan Fund  
State of Delaware

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Delaware Water Pollution Control Revolving Loan Fund (the Fund) of the State of Delaware, as of and for the years ended June 30, 2015 and 2014, 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*

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 opinions on these financial statements based on our audits. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Emphasis of Matter*

As discussed in Note 2, the financial statements present only the State of Delaware Water Pollution Control Revolving Loan Fund and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2015 and 2014, and the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

November 10, 2015

*Gunnip & Company LLP*

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

**Management's Discussion and Analysis  
June 30, 2015**

---

As management of the Delaware Water Pollution Control Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2015 (fiscal year 2015).

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

**Overview of the Financial Statements**

This discussion and analysis is an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of two components: Fund financial statements and notes to the financial statements.

**Financial Highlights**

In fiscal year 2015, the Delaware Department of Natural Resources and Environmental Control (DNREC) was awarded a Federal Capitalization Grant for \$6,853,000 from the U.S. Environmental Protection Agency (EPA). As of June 30, 2015, DNREC has received Federal Capitalization Grants in an aggregate amount of \$219,357,510 since the inception of the Fund. As of June 30, 2015, the State of Delaware has provided State match funds of \$40,023,684 since the inception of the Fund. The combined total capitalization amount at June 30, 2015 was \$259,381,194 since the inception of the Fund.

The Fund realized operating income of \$743,948 in fiscal year 2015, which represents an increase of \$756,503, from the fiscal year ended June 30, 2014 (fiscal year 2014). Contributions from the federal and State governments totaled \$8,480,987 in fiscal year 2015, a 74% decrease from fiscal year 2014.

Operating revenues for fiscal year 2015 (including interest income on loans) increased \$639,820 or 20% from the previous year. Operating revenues for fiscal year 2014 (including interest income on loans) increased \$53,545 or 2% from the previous fiscal year.

Loans disbursements made totaled \$8,535,922 during the fiscal year 2015, which represents a decrease of \$22,733,520 or 73% from fiscal year 2014. The large decrease in loan disbursements from fiscal year 2014 to fiscal year 2015 is primarily due to a large loan disbursement to the City of Wilmington in fiscal year 2014 which was funded by the EPA deobligation of the Drinking Water State Revolving Fund federal capitalization grant to the Fund. Loans collections totaled \$11,933,317 during fiscal year 2015 which represents a decrease of \$840,545 or 7% from fiscal year 2014.

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

**Management's Discussion and Analysis - Continued  
June 30, 2015**

**Statement of Net Position**

The following schedule summarizes the statements of net position (thousands of dollars) of the Fund as of June 30, 2015, 2014 and 2013:

	June 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Current assets</b>			
Pooled cash and investments	\$ 98,045	\$ 85,068	\$ 75,079
Grants receivable	54	170	-
Administrative fees receivable	293	256	281
Interfund receivable	588	649	710
Interest receivable	352	264	288
Loans receivable, current	10,959	12,122	10,772
Total current assets	<u>110,291</u>	<u>98,529</u>	<u>87,130</u>
<b>Noncurrent assets</b>			
Loans receivable, less current portion	<u>159,035</u>	<u>162,611</u>	<u>145,426</u>
Total assets	<u>\$ 269,326</u>	<u>\$ 261,140</u>	<u>\$ 232,556</u>
<b>Current liabilities</b>			
Vouchers payable	\$ 109	\$ 219	\$ -
Unearned state match	1,911	1,953	5,959
Interfund payable	588	649	710
Total liabilities	<u>2,608</u>	<u>2,821</u>	<u>6,669</u>
<b>Net position - unrestricted</b>	<u>266,718</u>	<u>258,319</u>	<u>225,887</u>
Total liabilities and net position	<u>\$ 269,326</u>	<u>\$ 261,140</u>	<u>\$ 232,556</u>

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

**Management's Discussion and Analysis - Continued  
June 30, 2015**

---

**Statement of Net Position - Continued**

The combined total net position of the Fund for the fiscal year ended June 30, 2015 increased by \$8,398,734 from fiscal year 2014, which increased by \$32,431,497 from the fiscal year ended June 30, 2013 (fiscal year 2013).

Pooled cash and investments increased \$12,976,818 or 15% to \$98,045,130 during fiscal year 2015, as a function of loan collections and federal reimbursements, as well as a decrease in loan disbursements compared to the prior year.

Pooled cash and investments increased \$9,988,514 or 13% to \$85,068,312 during fiscal year 2014 primarily because of an increase in federal reimbursements over the prior year.

Unearned income from the State match decreased \$41,850 or 2% during fiscal year 2015, as the Fund recognized its match to fund operating expense and loan disbursements to borrowers.

Unearned income from State match decreased \$4,006,136 or 67% during fiscal year 2014, as the Fund recognized its match to fund operating expense and loan disbursements to borrowers.

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

The following schedule summarizes the statements of revenues, expenses and changes in net position (thousands of dollars) for fiscal years 2015, 2014 and 2013:

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

**Management's Discussion and Analysis - Continued  
June 30, 2015**

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

	June 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues			
Interest income on loans	\$ 1,935	\$ 1,422	\$ 1,486
Administrative fee revenue	1,890	1,763	1,645
Application fees	1	1	1
Other income	1	1	1
Total operating revenues	<u>3,827</u>	<u>3,187</u>	<u>3,133</u>
Operating expenses			
Reimbursable expenditures under operating grants:			
Personnel costs	1,293	1,291	1,297
Travel	8	10	7
Contractual services	309	301	314
Supplies	13	12	15
Other expenses	13	289	38
Grants made	1,447	1,296	821
Total operating expenses	<u>3,083</u>	<u>3,199</u>	<u>2,492</u>
Operating income (loss)	<u>744</u>	<u>(12)</u>	<u>641</u>
Nonoperating revenues (expenses)			
Interest income on deposits	378	265	299
Contributions, EPA	7,069	26,952	5,160
Contributions, State	1,412	5,392	1,106
Loan forgiveness and write-offs	(1,204)	(165)	(215)
Total nonoperating revenues	<u>7,655</u>	<u>32,444</u>	<u>6,350</u>
Change in net position	8,399	32,432	6,991
Net position - beginning	<u>258,319</u>	<u>225,887</u>	<u>218,896</u>
Net position - ending	<u>\$ 266,718</u>	<u>\$ 258,319</u>	<u>\$ 225,887</u>

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

**Management's Discussion and Analysis - Continued  
June 30, 2015**

---

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

The Fund reported operating revenues of \$3,826,494 during fiscal year 2015, which represents an increase of \$639,820 or 20% from fiscal year 2014. The Fund reported operating revenues of \$3,186,674 during fiscal year 2014, which represents an increase of \$53,545 or 2% from fiscal year 2013. The increase in the current fiscal year is primarily a result of increased interest and administrative fee income, which were monies received as part of loan repayments. Borrowers are required to pay interest and administrative fees on funds disbursed during construction as well as throughout the life of the loan. Due to new loans issued in the prior year, income from interest and administrative fees increased. The Fund reported an overall increase of \$8,398,734 in total net position for fiscal year 2015, and an overall increase of \$32,431,497 in total net position for fiscal year 2014.

Federal grant revenue decreased by \$19,883,400 or 74% during fiscal year 2015, while the State match decreased by \$3,979,477, or 74%.

Federal grant revenue increased by \$21,791,901 or 422% during fiscal year 2014, while the State match increased by \$4,285,533, or 387%.

Total operating expenses decreased \$116,683 or 4% during fiscal year 2015, due to a decrease in other expenses paid out of the Federal Administrative Fund. Total operating expenses increased \$707,534 or 28% during fiscal 2014, due to an increase in grants made and personnel expenses paid out of the Nonfederal Administrative Fund.

During fiscal year 2015, the Fund recognized nonoperating expenses \$1,203,904 for loan forgiveness and write-offs compared to \$164,544 in fiscal year 2014.

**Requests for Information**

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

Lynn Perry  
State of Delaware  
Department of Natural Resources & Environmental Control  
Division of Water Resources  
5 E. Reed Street, Suite 200  
Dover, Delaware 19901

State of Delaware  
Delaware Water Pollution Control Revolving Loan Fund

Statement of Net Position  
June 30, 2015 and 2014

	2015				2014			
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
<b>Current assets</b>								
Pooled cash and investments	\$ -	\$ 91,287,869	\$ 6,757,261	\$ 98,045,130	\$ -	\$ 77,264,578	\$ 7,803,734	\$ 85,068,312
Grants receivable	-	53,894	-	53,894	-	170,312	-	170,312
Administrative fees receivable	-	-	292,708	292,708	-	-	255,564	255,564
Interfund receivable	-	-	588,111	588,111	-	-	649,383	649,383
Interest receivable	-	351,570	-	351,570	-	264,258	-	264,258
Loans receivable, net	-	10,959,431	-	10,959,431	-	12,121,543	-	12,121,543
Total current assets	-	102,632,764	7,638,080	110,290,844	-	89,820,691	8,708,681	98,529,372
<b>Noncurrent assets</b>								
Loans receivable, less current portion	-	159,034,825	-	159,034,825	-	162,610,992	-	162,610,992
Total assets	\$ -	\$ 261,687,589	\$ 7,638,080	\$ 269,325,669	\$ -	\$ 252,431,683	\$ 8,708,681	\$ 261,140,364
<b>Current liabilities</b>								
Vouchers payable	-	108,473	-	108,473	-	218,780	-	218,780
Unearned state match	-	1,911,384	-	1,911,384	-	1,953,234	-	1,953,234
Interfund payable	-	588,111	-	588,111	-	649,383	-	649,383
Total liabilities	-	2,607,968	-	2,607,968	-	2,821,397	-	2,821,397
Net position-unrestricted	-	259,079,621	7,638,080	266,717,701	-	249,610,286	8,708,681	258,318,967
Total liabilities and net position	\$ -	\$ 261,687,589	\$ 7,638,080	\$ 269,325,669	\$ -	\$ 252,431,683	\$ 8,708,681	\$ 261,140,364

See accompanying notes to financial statements.

State of Delaware  
Delaware Water Pollution Control Revolving Loan Fund

Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2015 and 2014

	2015			2014				
	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Loan Fund	Nonfederal Administrative Fund	Total
<b>Operating revenues</b>								
Interest income on loans	\$ -	\$ 1,934,512	\$ -	\$ 1,934,512	\$ -	\$ 1,422,050	\$ -	\$ 1,422,050
Administrative fee revenue	-	-	1,890,316	1,890,316	-	-	1,762,838	1,762,838
Application fees	-	814	-	814	-	1,032	-	1,032
Other income	-	852	-	852	-	754	-	754
Total operating revenues	-	1,936,178	1,890,316	3,826,494	-	1,423,836	1,762,838	3,186,674
<b>Operating expenses</b>								
Reimbursable expenditures under operating grants:								
Personnel costs	58,171	-	1,235,190	1,293,361	441,563	-	850,202	1,291,565
Travel	-	-	7,782	7,782	-	-	9,936	9,936
Contractual services	28,501	-	280,963	309,464	151,243	-	149,297	300,540
Supplies and office expenses	-	-	12,540	12,540	-	-	11,930	11,930
Other expenses	3,955	433	8,301	12,689	282,975	389	6,114	289,478
Grants made	-	-	1,446,710	1,446,710	-	-	1,295,780	1,295,780
Total operating expenses	90,627	433	2,991,486	3,082,546	875,581	389	2,323,259	3,199,229
Operating income (loss)	(90,627)	1,935,745	(1,101,170)	743,948	(875,581)	1,423,447	(560,421)	(12,555)
Nonoperating revenues and expenses								
Interest income on deposits	-	347,134	30,569	377,703	-	235,729	29,003	264,732
Contributions:								
EPA	75,113	6,993,424	-	7,068,537	729,092	26,222,845	-	26,991,937
State	15,514	1,396,936	-	1,412,450	146,489	5,245,438	-	5,391,927
Loan forgiveness and write-offs	-	(1,203,904)	-	(1,203,904)	-	(164,544)	-	(164,544)
Total nonoperating revenues and expenses	90,627	7,533,590	30,569	7,654,786	875,581	31,559,468	29,003	32,444,052
Change in net position	-	9,469,355	(1,070,601)	8,398,754	-	32,962,915	(531,418)	32,431,497
Net position - beginning - unrestricted	-	249,610,286	8,708,681	258,318,967	-	216,647,371	9,240,099	225,887,470
Net position - end - unrestricted	\$ -	\$ 259,079,621	\$ 7,638,080	\$ 266,717,701	\$ -	\$ 249,610,286	\$ 8,708,681	\$ 258,318,967

See accompanying notes to financial statements.

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

**Statement of Cash Flows**  
**Year Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Loan collections	\$ 11,933,317	\$ 12,773,862
Interest received from borrowers	1,847,200	1,445,507
Administrative fee revenue	1,853,172	1,788,631
Application fees and other revenue	1,666	1,786
Loan disbursements	(8,535,922)	(31,269,442)
General expenses paid	(3,055,873)	(3,183,978)
Net cash provided by (used in) operating activities	<u>4,043,560</u>	<u>(18,443,634)</u>
Cash flows from noncapital financing activities		
Grants received from EPA	7,184,955	26,781,814
State portion funded by recipient	1,370,600	1,385,602
Net cash provided by noncapital financing activities	<u>8,555,555</u>	<u>28,167,416</u>
Cash flows from investing activities		
Interest on deposits	<u>377,703</u>	<u>264,732</u>
Net increase in pooled cash and investments	12,976,818	9,988,514
Pooled cash and investments - beginning of year	<u>85,068,312</u>	<u>75,079,798</u>
Pooled cash and investments - end of year	<u>\$ 98,045,130</u>	<u>\$ 85,068,312</u>
Reconciliation of net operating income to cash provided by (used in) operating activities:		
Cash flows from operating activities:		
Operating income (loss)	\$ 743,948	\$ (12,555)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Administrative fees receivable	(37,144)	25,793
Interest receivable	(87,312)	23,457
Loans receivable, net	3,534,375	(18,699,109)
Vouchers payable	(110,307)	218,780
Net cash provided by (used in) operating activities	<u>\$ 4,043,560</u>	<u>\$ (18,443,634)</u>
Schedule of noncash investing activities		
Loan forgiveness and write-offs	<u>\$ (1,203,904)</u>	<u>\$ (164,544)</u>

See accompanying notes to financial statements.

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

**Notes to Financial Statements**  
**June 30, 2015 and 2014**

---

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

This summary of significant accounting policies of the Delaware Water Pollution Control Revolving Loan Fund (the Fund) is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

**1. General Background**

The Fund was created by the 1990 session of the Delaware General Assembly and received its first State appropriation on July 1, 1990. The Fund's purpose is to make below-market interest rate loans to local governments, individuals, and other qualifying applicants under the Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds (SRF) federal assistance program. The Fund's enabling legislation empowers the Department of Natural Resources and Environmental Control (DNREC) to administer the Fund.

**2. Type of Entity and Division of Funds**

The Fund's activities are accounted for as a distinct operating unit and a Proprietary Fund within DNREC's Division of Water Resources. Accordingly, the financial statements of the Fund are intended to present the financial position, results of operations and cash flows of Proprietary Fund types of only that portion of the funds of the State of Delaware (the State) that are attributable to the transactions of the Fund.

The Fund is divided into three sub-funds:

- The Federal Administrative Fund, which accounts for program-related administrative activities;
- The Capital Reserve Loan Fund, which accounts for capital lending and repayment activities; and
- The Nonfederal Administrative Fund, which accounts for monies that the State has been authorized, by the EPA, to allocate from the SRF program for the State's use. The use of these funds are governed by EPA rules and regulations 40 CFR Part 35 Guidance on Fees Charged by State to Recipients of Clean Water State Revolving Fund Program Assistance.

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

**Notes to Financial Statements - Continued  
June 30, 2015 and 2014**

---

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

**3. 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 United States generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards 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 (FASB), 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.

**4. Recognition of Revenues**

Federal assistance provided by the Capitalization Grants for the SRF program is earned when qualified expenditures are incurred by the borrowers and the Fund. Matching funds provided by the State are considered earned by the same criteria. Amounts earned in excess of grant monies received from the EPA are recorded as grants receivable. Amounts received from the State in excess of amounts earned are considered deferred grant revenue and recorded as unearned State match.

To permit comparability to grant revenues earned and fiscal budgets, expenditures reimbursable under the Fund's program guidelines are listed separately by object category and subtotaled in the statement of revenues, expenses and changes in net position.

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

**5. Pooled Cash and Investments**

Pooled cash and investments consist of the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware.

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

**Notes to Financial Statements - Continued**  
**June 30, 2015 and 2014**

---

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

**6. Use of Estimates**

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

**Note B - Pooled Cash and Investments**

*Pooled Cash and Investments*

Pooled cash and investments as reported on the statement of net position represent the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware (Treasurer). All cash is deposited with the Treasurer by State agencies and maintained by the Treasurer in various pooled funds. The Treasurer invests the deposited cash, including cash float in short-term securities and other investments. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average daily cash balance. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized by risk because they are not evidenced by securities that exist in a physical or book-entry form. Since the Fund's deposits and investments are part of the State's pooled deposits and investments maintained by the Treasurer, the required disclosures are included within the State of Delaware's financial statements.

*The Cash Management Policy Board*

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

*Investment Guidelines and Management*

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

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

**Notes to Financial Statements - Continued**  
**June 30, 2015 and 2014**

---

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

***Collateralization Requirements***

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

If the bank does not meet the above criteria, collateral must consist of one or more of the following:

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

Since the Fund's pooled cash and investments are managed by the Treasurer, the Fund is unable to control compliance with the collateralization requirements or determine if these requirements have been met.

The policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

***Pooled Cash and Investments - Federal Administrative Fund***

The pooled cash and investments in the Federal Administrative Fund represent grant funds drawn to pay administrative expenses of the Fund. The grant agreement permits an amount up to 4% of grant revenues over the life of the program for these administrative expenses.

State of Delaware  
Delaware Water Pollution Control Revolving Loan Fund

Notes to Financial Statements - Continued  
June 30, 2015 and 2014

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

*Pooled Cash and Investments - Capital Reserve Loan Fund*

The pooled cash and investments in the Capital Reserve Loan Fund represent all principal and interest received from Fund loans. These dollars are earmarked for future loans in accordance with applicable federal regulations.

*Pooled Cash and Investments - Administrative Fees*

The pooled cash and investments from administrative fees on municipal loans is recorded in the Nonfederal Administrative Fund, and is then available to the State for use at its discretion.

**Note C - Loans Receivable**

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

	2015	2014
Municipal loans		
Sussex County Council	\$ 48,427,252	\$ 52,447,595
City of Wilmington	37,681,603	34,324,099
City of Seaford	5,403,416	6,094,025
Kent County	21,510,614	22,472,971
City of Milford	1,560,698	1,698,967
New Castle County	2,057,273	2,197,410
Town of Selbyville	1,884,851	2,044,279
Town of Laurel	1,962,637	2,855,808
City of Dover	5,815,476	6,136,205
Camden Wyoming Sewer & Water Authority	137,203	157,375
Town of Millsboro	10,413,316	10,765,424
Town of Bridgeville	2,137,573	2,245,564
City of Lewes	8,776,920	9,396,974
Town of Delmar	1,027,342	1,087,988
Town of Georgetown	3,281,367	3,537,523
City of Harrington	2,750,518	2,901,073
Dewey Beach	316,973	362,201

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

**Notes to Financial Statements - Continued  
June 30, 2015 and 2014**

**Note C - Loans Receivable - Continued**

	<u>2015</u>	<u>2014</u>
Municipal loans - continued		
Town of Middletown	295,968	338,198
Town of Smyrna	4,044,255	3,047,292
City of New Castle	28,364	140,414
City of Rehoboth Beach	428,037	38,071
Total municipal loans	<u>159,941,656</u>	<u>164,289,456</u>
ARRA loans		
Sussex County Council	5,923,778	6,232,406
City of New Castle	20,415	101,064
Kent County	716,031	755,078
Total ARRA loans	<u>6,660,224</u>	<u>7,088,548</u>
State Agencies Loans	323,425	-
Septic Rehabilitation Program	2,863,027	2,946,339
Agriculture Nonpoint Source Loans	157,823	303,059
Dairy Loan Program	17,308	33,489
Underground Storage Tank Program	-	27,714
Expanded Agriculture Loan Program	<u>30,793</u>	<u>43,930</u>
Total loans	<u>\$ 169,994,256</u>	<u>\$ 174,732,535</u>
Current portion	\$ 10,959,431	\$ 12,121,543
Long-term portion	<u>159,034,825</u>	<u>162,610,992</u>
Total loans	<u>\$ 169,994,256</u>	<u>\$ 174,732,535</u>

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

**Notes to Financial Statements - Continued  
June 30, 2015 and 2014**

**Note C - Loans Receivable - Continued**

Interest charged on these loans ranges from 0% to 6.0% for both fiscal year 2015 and 2014. Loan maturities vary, based on individual agreements. General Obligation and Municipal Revenue bonds are collateral for municipal loans; business assets and real estate are collateral for other loans.

The loans are shown net of an allowance for doubtful accounts as of June 30, 2015 of \$203,850 for accounts in collection. There is no allowance for doubtful loans at June 30, 2014, as there were no material delinquent loan balances or loan defaults during the year. During fiscal year 2015 and 2014, several loan balances were forgiven or written off as part of the terms of the loan agreements. Total loans forgiven or written off during fiscal year 2015 and 2014 were \$1,203,904 and \$164,544, respectively. As of June 30, 2015, there are \$811,000 of loans that are available for forgiveness after the projects are completed.

**Note D - Significant Source of Revenue - State Revolving Loan Grant**

The Fund currently derives a significant portion of its revenue from EPA State Revolving Fund Capitalization Grant awards and mandatory State matching funds. The total funds awarded through a series of agreements during the federal capitalization period (October 1, 1990 through June 30, 2015) were \$259,381,194, which includes the federal portion of \$219,357,510, or five-sixths, and the State matching portion of \$40,023,684, or one-sixth.

According to federal program guidelines, the Fund may spend up to four percent (4%) of the federal awards on administrative expenses. As previously described in Note A, a separate Administrative Fund is used to account for such costs and related revenues.

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

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Awards made through June 30, 2015	\$219,357,510	\$40,023,684	\$259,381,194
Awards expended through June 30, 2015	\$209,799,796	\$37,529,266	\$247,329,062

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

**Notes to Financial Statements - Continued**  
**June 30, 2015 and 2014**

---

**Note E - Deobligation of Federal Funds Between the Fund and the Drinking Water State Revolving Fund and Corresponding State Match**

On September 4, 2012, the EPA deobligated \$27,050,177 of the Drinking Water State Revolving Fund (DWSRF) federal capitalization grant and awarded it to the Fund. As part of the deobligation, \$5,410,035 initially appropriated to the DWSRF, which represented the required 20% state match, was also appropriated to the Fund.

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

**Note F - Pension Plan**

Employees that administer the Fund are considered employees of DNREC and the State and are covered under the State Employees' Pension Plan (the Plan). While the Fund contributed to the Plan \$105,352 for fiscal year 2015 and \$106,060 for fiscal year 2014, respectively, which is included in the financial statements as personnel costs, the Fund is not a reporting unit and does not share in the State Employees' Pension Plan net pension liability.

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

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

Post-2011 Employee - Post-2011 employee shall mean an employee, as defined in 29 Del C., Section 5501(e), who is first employed by the State on or after January 1, 2012.

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

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

**Notes to Financial Statements - Continued**  
**June 30, 2015 and 2014**

---

**Note F - Pension Plan - Continued**

For post-2011 employees, final average compensation per House Bill 81 shall include:

1. 1/36 of the compensation, minus overtime payments, paid to an employee during any period of 36 consecutive months or any 36 months comprised of three periods of 12 consecutive months in that employee's years of service credited under paragraphs (d)(1), (2), and #3 of this section in which that employee's compensation was highest, or the average monthly compensation paid to an employee during that period if such period is less than 36 months, plus
2. The dollar amounts of awards received under the "Teacher of the Year" and "Delaware Award for Excellence and Commitment in State Service" programs, plus
3. The total dollar amount of final lagged payments for credited service received by employees as defined under Section 2712 of Title 29.

Vesting - Five (5) years of credited service. For Post-2011 employees, ten 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.

For Post-2011 employees, age 65 with ten years of credited service, exclusive of service credited under 29 Del C § 5501(d)(12); 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 - 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 the employee is receiving a pension, the eligible survivor receives 50% (or 75% with 3% 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 - Employee - 3% of earnings in excess of \$6,000. For Post-2011 employees, 5% of earnings in excess of \$6,000. Employer contribution is determined by the Deferred Compensation Council.

Death Benefit - \$7,000 per member.

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

**Notes to Financial Statements - Continued**  
**June 30, 2015 and 2014**

---

**Note F - Pension Plan - Continued**

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

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

**Note G - Commitments and Contingencies**

**1. Operating Lease**

Beginning July 1, 1997, DNREC entered into a lease for office space, on behalf of the Fund, of which the Fund currently pays 100%. The operating lease is on a month to month basis. Rent expense, which is included in the financial statements as contractual services, was \$39,552 and \$47,462 in fiscal year 2015 and 2014, respectively.

**2. Loan Commitments**

The Fund has met its prior binding commitments (equal to at least one hundred twenty percent (120%) of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2015, there were binding commitments of \$39,138,822.

**3. Cost Reimbursement Contracts**

The Fund derives all of its non-operating revenue from EPA Capitalization Grants for State Revolving Fund Program and mandatory State matching funds which are contracts based on the reimbursement of allowance costs related to the program. Costs are subject to review by the EPA. Management does not believe there are any adjustments that could arise from disallowed costs that would materially impact the Fund's financial statements.

**4. Deobligation of the Drinking Water State Revolving Loan Fund Grants**

On September 4, 2012, the EPA deobligated \$27,050,177 of Drinking Water State Revolving Loan Fund (DWSRF) grant award and awarded those funds to the Fund. While the Fund is presently able to utilize those funds for its own projects, the funds will eventually be provided back to the DWSRF to fund drinking water projects in the future.

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

**Notes to Financial Statements - Continued**  
**June 30, 2015 and 2014**

---

**Note H - Risk Management**

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

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, 2015, there were no outstanding or pending claims against the Fund.

**Note I - American Recovery and Reinvestment Act of 2009**

During the fiscal year ended June 30, 2009, the Fund was awarded additional funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009 in the amount of \$19,239,100. The Fund began processing various loan applications and began disbursing the funds in fiscal year 2011. The loan agreements state that each loan will be granted principal forgiveness of between 25% and 100% of the loan amount upon completion of the project. During fiscal year 2015 and 2014, the Fund forgave \$0 and \$122,750, respectively, in ARRA loans.

**Note J - Nonfederal Administrative Fund**

The Nonfederal Administrative Fund account is used to supplement administrative expenses of the Fund and other water quality improvement expenses.

The Nonfederal Administrative Fund will also continue to fund the Septic Extended Funding Option (SEFO) Fund and other water quality areas. The SEFO Fund provides grants to individuals or entities which do not qualify for a Revolving Loan.

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

**Notes to Financial Statements - Continued  
June 30, 2015 and 2014**

---

**Note J - Nonfederal Administrative Fund - Continued**

During the fiscal year ended June 30, 2015, the Nonfederal Administrative Fund funded the following:

SEFO grants	\$ 250,000
Wastewater matching planning grants	169,478
DNREC other program matching planning grants	1,027,232
Personnel costs for other water quality areas	<u>512,114</u>
Total	<u><u>\$ 1,958,824</u></u>

**Note K - Subsequent Events**

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

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Management  
Delaware Water Pollution Control  
Revolving Loan Fund  
State of 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 Delaware Water Pollution Control Revolving Loan Fund (the Fund) of the State of Delaware, as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated November 10, 2015.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a 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 considerations of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

**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*.

**Purpose of this Report**

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 10, 2015

Gunnip & Company LLP

**State of Delaware**  
**Delaware Water Pollution Control Revolving Loan Fund**  
**Schedule of Findings and Responses**

**Current Year Findings**

No current year findings were identified.

**Prior Year Finding**

None outstanding.