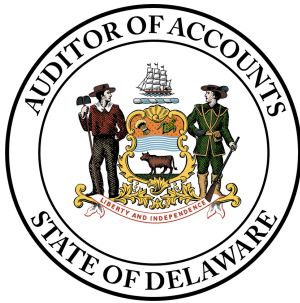




STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND

FINANCIAL STATEMENT AUDIT
FISCAL YEARS ENDED JUNE 30, 2022 AND 2023



STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND

REPORT SUMMARY FOR FISCAL YEARS ENDED JUNE, 30, 2022., 2023

BACKGROUND

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

The Fund is funded through federal grants as established under the Federal Safe Drinking Water Act and the Capitalization Grants for the Drinking Water State Revolving Loan Fund. The Safe Water Drinking Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received. The Delaware Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS) administers the fund.

During fiscal year ended June 30, 2023, the Fund received additional grants (Emerging Contaminants Grant, Lead Service Line Grant, and General Supplement Grant) funded by the Infrastructure Investment and Jobs Act (IIJA) which provides funds for the DWSRF program. The additional grants are to provide low interest financing to numerous subrecipients for costs associated with the planning, design, and construction of eligible water quality improvement and protection projects. EPA authorized the Fund to issue subsidization through principal forgiveness loans with a policy to maintain an allowance equal to the amount of disbursement until the last disbursement is made. The State is not required to match funds for the Emerging Contaminants or Lead Service Line Grants, however, is required to provide matching funds equal to 10% of the General Supplemental Grant.

This engagement was conducted in accordance with 29 Del. C. §2906.

KEY INFORMATION AND FINDINGS

This audit contains an unmodified opinion on the financial statements. An unmodified opinion is sometimes referred to as a “clean” opinion, in which the auditor expresses an opinion that the financial statements are presented fairly, in all material respects, an entity’s financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. There were no findings required to be reported under Government Auditing Standards.

Drinking Water Revolving Fund (In Thousands, 2019–2023)					
	2023	2022	2021	2020	2019
Net Position	\$ 208,093	\$ 195,315	\$ 190,257	\$ 170,492	\$ 161,962
Pooled Cash & Investments	\$ 106,630	\$ 95,544	\$ 83,539	\$ 76,903	\$ 65,066

**State of Delaware Drinking Water Revolving Loan Fund
Financial Statements
Fiscal Years Ended June 30, 2023 and 2022**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the State of Delaware Drinking Water Revolving Loan Fund (the "Fund"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note A, the financial statements present only the State of Delaware Drinking Water Revolving Loan Fund and are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the Fund that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Delaware, as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



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Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The schedules of net position by sub-fund, schedules of activities by sub-fund, schedules of net position by classification, and schedules of revenues, expenses and changes in net position by classification as of and for the years ended June 30, 2023 and 2022, together referred to as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Harrisburg, Pennsylvania
April 23, 2024

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

**State of Delaware Drinking Water Revolving Loan Fund
Management's Discussion and Analysis
June 30, 2023 and 2022**

As management of the State of Delaware Drinking Water Revolving Loan Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2023 and 2022 (fiscal years 2023 and 2022). All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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

Overview of the Financial Statements

The Fund was established through subsection 15 of 29 Del. C., c. 79 §7903(14), and provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities, as well as loans for land acquisition for source water protection purposes. The Fund is funded through federal capitalization grants as established under Federal §1452 of the Safe Drinking Water Act (the Act). The Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received.

During fiscal year ended June 30, 2023, the Fund received additional grants funded by the Infrastructure Investment and Jobs Act which provides funds for the Drinking Water State Revolving Fund program; the new grants are known as Emerging Contaminants Grant, Lead Service Line Grant and the General Supplemental Grant. The additional grants are to provide low interest financing to numerous subrecipients for costs associated with the planning, design, and construction of eligible water quality improvement and protection projects. The State is required to provide matching funds equal to 10% of the General Supplemental Grant. No match is required for the Emerging Contaminants or Lead Service Line grants. The Fund is jointly administered by the Department of Natural Resources and Environmental Control (DNREC) and the State of Delaware Department of Health and Social Services (DHSS). The primary activities include making loans, providing direct assistance, and managing the Fund to meet the objectives of the Act.

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

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

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

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

Financial Highlights (Numbers in Thousands)

The Fund realized a change in net position of \$12,778 in fiscal year 2023, which represents an increase of 7%. The increase was primarily a result of an increase in grant revenue and state match. The Fund realized a change in net position of \$5,059 in fiscal year 2022, which represents an increase of 3%. The increase in net position in 2022 was due to several factors, an increase in interest income and a decrease in operating expenses.

Grant revenue recognized from the federal and state governments totaled \$24,676 in fiscal year 2023, a 158% increase from fiscal year 2022, due to an increase in federal and state revenues. Grant revenue recognized from the federal and state governments totaled \$9,557 in fiscal year 2022, a 54% decrease from fiscal year 2021, due to a decrease in federal and state grants from draw downs.

Loans disbursements made totaled \$20,841 during fiscal year 2023, which represents an increase of \$12,532 from the previous year. This increase of 151% was caused by increased draws on existing loans from municipalities and others through the state. Loans made during 2022 totaled \$8,309, which represents a decrease of \$11,486 from the previous year. This decrease of 58% was caused by decreased draws on existing loans from municipalities and others through the state.

Loan collections (principal) totaled \$8,880 during fiscal year 2023. This represents an overall decrease of \$3,637, 29%, from 2022 due to decreased borrowings in recent years resulting in decreased principal payments by loan recipients. Loan collections (principal) totaled \$12,517 during 2022. This represents an overall increase of \$4,055 or 48%, from the prior year.

Loan agreements may provide for a subsidization of the loan where, upon completion, a percentage of the loan will be forgiven. The allowance for subsidization for fiscal 2023 was \$2,140. This represents an overall increase of \$638, or 42% from fiscal 2022. The allowance for subsidization for fiscal 2022 increased \$1,212 from 2021, or 418% to \$1,502.

Statement of Net Position

The total net position of the Fund for years ended June 30, 2023 and 2022 increased by \$12,779 and \$5,059, respectively. The following condensed statement of net position (Table 1) shows a summary of changes in dollars for the Fund for fiscal years ended June 30, 2023, 2022 and 2021.

During fiscal year 2023, pooled cash increased by approximately \$11,086, or 12%, to \$106,630 based on an increase in interest income, and an increase in collections. Loans receivable increased, by \$1,704, or 2%, to \$100,932, mostly as a result of increased loans made, and a decrease in repayments. Federal grants receivable decreased by \$6,293, or 79%, due to the timing of reimbursements requests from the EPA during fiscal year ended June 30, 2023. Due to state decreased \$6,072, or 83%, due to reduced state grants received.

During fiscal year 2022, pooled cash increased by approximately \$12,005, 14% to \$95,544 based on an increase in interest income, and an increase in collections. Loans receivable decreased, by \$6,959, 7%, to \$99,228, mostly as a result of decreased loans made, increase in repayments, and an increase in loan subsidization. Federal grants receivable increased by \$6,570, 486% due to the timing of reimbursement requests from the EPA during fiscal year ended June 30, 2022. Vouchers payable in 2023 decreased by \$229 or 37% from the prior year as a result of timing of disbursements at year end for 2023. Vouchers payable in 2022 increased by \$353, or 137% for the same reason. The intangible right-to-use asset decreased by \$7 or 15% from fiscal year 2022. The intangible right-of-use asset decreased \$10 in fiscal year 2021. The related lease liability decreased \$6 or 12%, in fiscal year 2023. The lease liability decreased \$9 or 15% in fiscal 2022.

Statement of Net Position – Continued

Table 1
Statement of Net Position
(Thousands of Dollars)

	June 30,		
	2023	2022	2021
Current assets			
Pooled cash and investments	\$ 106,630	\$ 95,544	\$ 83,539
Loans, current portion	8,890	7,505	7,499
Loan interest	534	553	557
Federal grants receivable	1,628	7,921	1,351
Total current assets	117,682	111,523	92,946
Noncurrent assets			
Operating right-of-use assets	39	46	56
Loans, net of current portion	92,042	91,723	98,688
Total noncurrent assets	92,081	91,769	98,744
Total assets	<u>\$ 209,763</u>	<u>\$ 203,292</u>	<u>\$ 191,690</u>
Current liabilities			
Due to State	\$ 1,245	\$ 7,317	\$ 1,118
Short term lease liability	12	9	9
Vouchers payable	382	611	258
Total current liabilities	1,639	7,937	1,385
Noncurrent liabilities			
Long term lease liability	31	40	49
Total noncurrent liabilities	31	40	49
Total liabilities	1,670	7,977	1,434
Net position - unrestricted	208,093	195,315	190,256
Total liabilities and net position	<u>\$ 209,763</u>	<u>\$ 203,292</u>	<u>\$ 191,690</u>

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

The following schedule summarizes the statement of revenue, expenses, and changes in net position of the Fund for the fiscal years ended June 30, 2023, 2022, and 2021 (Table 2).

Federal grant revenue increased by \$14,138, or 193%, and the state match revenue increased \$981, due to an increase in loan requests during fiscal year 2023. Federal grant revenue decreased by \$9,238, or 56% during fiscal year 2022 due to a decrease in loan requests.

Interest income from cash deposits increased by \$867, or 100% during fiscal year 2023, due to increased rates in fiscal year 2023. Interest income from cash deposits decreased by \$1,078, or 100%, during fiscal year 2022, due to decreased rates, state had 0% rate in fiscal year 2022.

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

In 2023, operating expenses increased by approximately \$1,473, or 39%, due mostly to decrease in contract services.

In 2022, operating expenses decreased by approximately \$662, or 15%, due mostly to decrease in contract services.

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

	June 30,		
	2023	2022	2021
Operating revenue			
Interest income - loans and administrative fees	\$ 2,457	\$ 2,459	\$ 2,375
Operating expenses			
Salaries and related benefits	2,807	1,744	1,874
Contract services	1,603	812	1,555
Grants	327	422	99
Indirect costs	-	271	445
Supplies	458	369	368
Training	-	122	62
Travel	19	1	-
Total operating expenses	5,214	3,741	4,403
Operating loss	(2,757)	(1,282)	(2,028)
Nonoperating revenues and expenses			
Amortization	\$ (12)	\$ (10)	\$ (10)
Lease Interest	(2)	(2)	(3)
Interest income - cash deposits	867	-	1,078
Grant revenue	21,475	7,337	16,575
State match	3,201	2,220	4,403
Subsidization through principal forgiveness	(9,994)	(3,204)	(251)
Total nonoperating revenues and expenses	15,535	6,341	21,792
Change in net position	12,778	5,059	19,764
Net position - beginning of year	195,315	190,256	170,492
Net position - ending of year	\$ 208,093	\$ 195,315	\$ 190,256

Request for Information

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

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

State of Delaware
Drinking Water Revolving Loan Fund

Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Pooled cash and investments	\$ 106,630,059	\$ 95,543,767
Loans receivable	8,889,607	7,505,229
Interest receivable	534,465	552,836
Federal grants receivable	<u>1,627,906</u>	<u>7,920,884</u>
Total current assets	117,682,037	111,522,716
Noncurrent assets		
Right-of-use asset	39,473	46,488
Loans receivable	<u>92,041,880</u>	<u>91,722,859</u>
Total noncurrent assets	<u>92,081,353</u>	<u>91,769,347</u>
Total assets	<u><u>\$ 209,763,390</u></u>	<u><u>\$ 203,292,063</u></u>
Liabilities		
Current liabilities		
Due to State	\$ 1,245,627	\$ 7,317,289
Short term lease liability	11,834	9,072
Vouchers payable	<u>382,278</u>	<u>610,901</u>
Total current liabilities	1,639,739	7,937,262
Noncurrent liabilities		
Long term lease liability	30,610	39,979
Net position		
Net position - unrestricted	<u>208,093,041</u>	<u>195,314,822</u>
Total liabilities and net position	<u><u>\$ 209,763,390</u></u>	<u><u>\$ 203,292,063</u></u>

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues		
Interest income - loans	\$ 1,161,198	\$ 1,229,364
Interest income - administrative fees	1,295,391	1,229,424
Total operating revenues	2,456,589	2,458,788
Operating expenses		
Salaries and related benefits	2,806,464	1,743,983
Contract services	1,602,876	811,984
Grants	326,694	421,608
Indirect costs	-	270,782
Supplies	458,430	369,136
Training	-	122,242
Travel	18,811	1,103
Total operating expenses	5,213,275	3,740,838
Operating loss	(2,756,686)	(1,282,050)
Nonoperating revenues and expenses		
Amortization	(12,448)	(9,895)
Lease Interest	(1,556)	(1,745)
Interest income - cash accounts	866,683	-
Grant revenue	21,475,220	7,336,856
State match	3,200,800	2,220,000
Subsidization through principal forgiveness	(9,993,794)	(3,203,655)
Total nonoperating revenues	15,534,905	6,341,561
Change in net position	12,778,219	5,059,511
Net position - beginning of year	195,314,822	190,255,311
Net position - end of year	\$ 208,093,041	\$ 195,314,822

See accompanying notes to financial statements.

State of Delaware
Drinking Water Revolving Loan Fund
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Loan repayments	\$ 8,880,348	\$ 12,517,035
Interest income - loans	1,161,198	1,229,364
Interest income - administrative fees	1,313,763	1,229,424
Loan disbursements	(20,840,714)	(8,308,986)
Salaries and related benefits paid	(2,806,464)	(1,743,983)
General expenses paid	(2,372,262)	(2,093,576)
Net cash provided by (used in) operating activities	<u>(14,664,131)</u>	<u>2,829,278</u>
Cash flows from noncapital financing activities		
Grants received from EPA	27,762,765	680,408
Grants received from state	3,200,800	2,220,000
Advance from (Repayment to) State	(6,071,662)	6,285,580
Net cash provided by noncapital financing activities	<u>24,891,903</u>	<u>9,185,988</u>
Cash flows from noncapital financing activities		
Principal paid on capital debt	(6,607)	(8,876)
Interest paid on capital debt	(1,556)	(1,745)
Net cash used in by capital and related financing activities	<u>(8,163)</u>	<u>(10,621)</u>
Cash flows from investing activities		
Interest received from cash deposits	866,683	-
Net increase in cash and cash equivalents	11,086,292	12,004,645
Cash and cash equivalents - beginning of year	<u>95,543,767</u>	<u>83,539,122</u>
Cash and cash equivalents - end of year	<u><u>\$ 106,630,059</u></u>	<u><u>\$ 95,543,767</u></u>
Reconciliation of net operating income to net cash used in operating activities:		
Operating loss	\$ (2,756,686)	\$ (1,282,050)
Adjustments to reconcile operating income to net cash used in operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	(11,697,193)	3,754,627
(Increase) decrease in interest and dividends receivable	18,371	3,688
Increase (decrease) in vouchers payable	(228,623)	353,013
Net cash provided by (used in) operating activities	<u><u>\$ (14,664,131)</u></u>	<u><u>\$ 2,829,278</u></u>
Schedule of noncash investing activities		
Subsidization through principal forgiveness	<u><u>\$ (9,993,794)</u></u>	<u><u>\$ (3,203,655)</u></u>

See accompanying notes to financial statements.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements
Years Ended June 30, 2023 and 2022

Note A - Summary of Significant Accounting Policies

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

1. General Background

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

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

The Fund is funded through federal capitalization grants as established under Federal §1452 of the Safe Drinking Water Act (the Act) and Capitalization Grants for Drinking Water State Revolving Loan Fund (Assistance Listing #66.488)(Capitalization Grants). The Act requires the State of Delaware (the State) to provide matching funds equal to 20% of federal funds received.

During the fiscal year ended June 30, 2023, the Fund received additional grants funded by the Infrastructure Investment and Jobs Act (IIJA), which provides funds for the Drinking Water Revolving Loan Fund (DWSRF) program. These grants are known as the Emerging Contaminants Grant, Lead Service Line and the General Supplemental Grant. The activities are to provide low interest financing to numerous subrecipients for costs associated with the planning, design, and construction of eligible water quality improvement and protection projects. The Emerging Contaminants Grant's primary objective to address emerging contaminants in drinking water with a focus on projects addressing perfluoroalkyl and polyfluoroalkyl substances (PFAS) under section 1452 of the Safe Drinking Water Act (SDWA). The Lead Service Line Grant has an emphasis on lead service line replacement and associated activities directly connected to the identification, planning, design, and replacement of lead service lines.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note A - Summary of Significant Accounting Policies (Continued)

1. General Background (Continued)

The grants were issued as follows:

Grant Year	Total Available Funding	Federal Portion	State Portion
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -
1997-2018 *	200,176,498	166,813,748	33,362,750
2019	13,204,800	11,004,000	2,200,800
2020	13,213,200	11,011,000	2,202,200
2021	13,320,000	11,100,000	2,220,000
2022	64,105,800	60,905,000	3,200,800
Total	<u>\$323,520,298</u>	<u>\$280,333,748</u>	<u>\$43,186,550</u>

*Amounts were adjusted to reflect deobligation of federal funding, and corresponding state match, see note 6.

The federal grant years are one year behind the Fund's fiscal year. Therefore, federal year 2022 corresponds to the Fund's 2023 fiscal year.

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

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

Loan Fund

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

Set-Aside Sub-Funds

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

There are four such funds:

- a. The 2% Technical Assistance Sub-Fund is used to account for the funds allotted to the State (up to 2% of the total) to provide assistance to public water systems serving 10,000 people or fewer.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note A - Summary of Significant Accounting Policies (Continued)

1. General Background (Continued)

- b. The 4% Administration Sub-Fund is used to account for the funds allotted to the State (up to 4% of the total) for the reasonable costs of administering the programs under §1452 and providing technical assistance. These costs may include such activities as issuing debt; program start-up costs; audit costs; financial, management and legal consulting fees; development of an intended use plan and priority ranking system; development of affordability criteria; and cost of support services provided by other State agencies.
- c. The 10% Program Management Sub-Fund is used to account for the funds allotted to the State (up to 10% of the total) to:
 - 1) Administer the State Public Water System Supervision Program (PWSS) program;
 - 2) Administer or provide technical assistance through source water protection programs;
 - 3) Develop and implement a capacity development strategy; and
 - 4) Develop and implement an operator certification program.
- d. The 15% Local Assistance Sub-Funds are used to fund several other categories of activities to assist development and implementation of local drinking water protection initiatives with the stipulation that not more than 20% of the capitalization grant amount can be used for any one activity.

2. Type of Entity and Division of Funds

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

3. Measurement Focus and Basis of Accounting

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note A - Summary of Significant Accounting Policies (Continued)

3. Measurement Focus and Basis of Accounting (Continued)

changes in net position present increases (revenues) and decreases (expenses) in total net position.

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

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

4. Recognition of Revenues

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

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

5. Pooled Cash

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

6. Use of Estimates

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note B - Pooled Cash

Pooled Cash - State Treasurer's Pool

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

The Cash Management Policy Board

The State's policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to the investment of all money belonging to the State except money in any State pension fund and money held under the State deferred compensation program. The Policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

Investment Guidelines and Management

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

Collateralization Requirements

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

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

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note B - Pooled Cash (Continued)

- 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 legal balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

Note C - Transfers In/Transfers Out

During the years ended June 30, 2023 and 2022, the Nonfederal Administrative Fund transferred \$67,543 and \$33,635, respectively, to the Capital Reserve Fund.

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

As of June 30, 2023, the Fund had federal grants awarded in the amount of \$226,436,749, from which it had made disbursements of \$225,209,691. These amounts reflect the \$27,050,177 of federal grants deobligated by the EPA in the 2012 fiscal year, see Note F. The breakdown for all grants is as follows:

Loan Fund

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Reallocation of Funds	Remaining Balance
ARRA	\$ 18,778,138	\$ 18,778,138	\$ -	\$ -
1997-2018	120,192,837	120,192,837	-	-
2019	7,592,760	8,060,219	467,459	-
2020	7,597,590	7,597,590	-	-
2021	7,659,000	7,659,000	-	-
2022	5,008,134	5,008,134	-	-
Total	<u>\$166,828,459</u>	<u>\$167,295,918</u>	<u>\$ 467,459</u>	<u>\$ -</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

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

Set-Aside Sub-Funds

2% Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Reallocation of Funds	Remaining Balance
1997-2018	\$ 3,100,224	\$ 3,100,224	\$ -	\$ -
2019	220,080	202,303	(17,777)	-
2020	220,220	220,220	-	-
2021	222,000	222,000	-	-
2022	137,332	16,025	-	121,307
Total	<u>\$ 3,899,856</u>	<u>\$ 3,760,772</u>	<u>\$ (17,777)</u>	<u>\$ 121,307</u>

Set-Aside Sub-Funds

4% Administration

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Reallocation of Funds	Remaining Balance
ARRA	\$ 721,862	\$ 721,862	\$ -	\$ -
1997-2018	6,543,797	6,543,797	-	-
2019	440,160	311,567	(128,593)	-
2020	440,440	440,440	-	-
2021	444,000	444,000	-	-
2022	263,247	87,857	-	175,390
Total	<u>\$ 8,853,506</u>	<u>\$ 8,549,523</u>	<u>\$ (128,593)</u>	<u>\$ 175,390</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

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

Set-Aside Sub-Funds (Continued)

10% Program Management

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Reallocation of Funds	Remaining Balance
1997-2018	\$ 16,746,827	\$ 16,746,827	\$ -	\$ -
2019	1,100,400	1,007,469	(92,931)	-
2020	1,101,100	1,101,100	-	-
2021	1,110,000	1,110,000	-	-
2022	662,925	238,528	-	424,397
Total	<u>\$ 20,721,252</u>	<u>\$ 20,203,924</u>	<u>\$ (92,931)</u>	<u>\$ 424,397</u>

15% Local Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Reallocation of Funds	Remaining Balance
1997-2018	\$ 20,230,064	\$ 20,230,064	\$ -	\$ -
2019	1,650,600	1,422,442	(228,158)	-
2020	1,651,650	1,651,650	-	-
2021	1,665,000	1,665,000	-	-
2022	936,362	430,398	-	505,964
Total	<u>\$ 26,133,676</u>	<u>\$ 25,399,554</u>	<u>\$ (228,158)</u>	<u>\$ 505,964</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

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

Set-Aside Sub-Funds (Continued)

Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Reallocation of Funds	Remaining Balance
ARRA	\$ 19,500,000	\$ 19,500,000	\$ -	\$ -
1997-2018	166,813,749	166,813,749	-	-
2019	11,004,000	11,004,000	-	-
2020	11,011,000	11,011,000	-	-
2021	11,100,000	11,100,000	-	-
2022	7,008,000	5,780,942	-	1,227,058
Total	<u>\$226,436,749</u>	<u>\$225,209,691</u>	<u>\$ -</u>	<u>\$ 1,227,058</u>

As of June 30, 2023, the federal grants awarded under the Infrastructure Investment and Jobs Act, General Supplemental grant, Emerging Contaminants (EC) and Lead Service Line (LSL) grant, awards and disbursements are as follows:

SUPPLEMENTAL AWARDS

Fund Level	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
<i>Loan Fund</i>	\$ 15,949,301	\$ 7,335,779	\$ 8,613,522
<i>2% Technical Assistance</i>	79,195	44,095	35,100
<i>4% Administration</i>	416,849	118,423	298,426
<i>10% Program Management</i>	363,202	101,071	262,131
<i>15% Local Assistance</i>	1,183,453	333,992	849,461
Total	<u>\$ 17,992,000</u>	<u>\$ 7,933,360</u>	<u>\$10,058,640</u>

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

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

EC AWARDS			
	Committed Portion of		
<u>Fund Level</u>	<u>Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
<i>Loan Fund</i>	\$ 6,378,574	\$ -	\$ 6,378,574
<i>2% Technical Assistance</i>	78,000	34,700	43,300
<i>4% Administration</i>	148,426	39,911	108,515
<i>15% Local Assistance</i>	950,000	303,995	646,005
Total	\$ 7,555,000	\$ 378,606	\$ 7,176,394

LSL AWARDS			
	Committed Portion of		
<u>Fund Level</u>	<u>Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
<i>Loan Fund</i>	\$ 27,887,331	\$ -	\$27,887,331
<i>2% Technical Assistance</i>	170,379	53,137	117,242
<i>4% Administration</i>	292,290	57,548	234,742
Total	\$ 28,350,000	\$ 110,685	\$28,239,315

Note E - Federal Grants Receivable

Grants receivable of \$1,627,906 and \$7,920,884, as of June 30, 2023 and 2022, respectively, represent amounts due from the federal government for amounts expended or accrued.

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

On September 4, 2012, the Environmental Protection Agency (EPA) deobligated \$27,050,177 of the Fund's federal capitalization grant and awarded it to the WPCRLF. As part of the deobligation, \$5,410,035, which represented the required 20% state match, was appropriated to WPCRLF. During 2023 and 2022, no additional funds were deobligated.

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note G - Loans Receivable

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

	Loans Receivable	
	2023	2022
City of Harrington	\$ 415,213	\$ 433,548
Town of Bethany Beach	540,063	756,331
Town of Blades	293,474	315,578
Town of Milton	2,332,568	1,711,770
City of Wilmington	53,719,881	57,778,854
Town of Greenwood	727,906	758,844
Town of Dagsboro	483,954	529,125
Town of Laurel	1,934,233	2,021,332
Town of Smyrna	3,480,086	3,918,188
City of Lewes	223,667	90,182
Town of Bridgeville	701,990	781,697
City of Seaford	634,875	703,361
City of Dover	4,556,688	4,868,983
Town of Delmar*	581,798	607,858
Town of Middletown	918,833	1,009,457
City of Milford	1,782,694	1,942,938
City of Newark	7,536,683	5,560,731
Town of Georgetown	25,976	1,137,461
Less: Principal subsidization allowance	(2,139,744)	(1,502,196)
Total Municipal	<u>\$ 78,750,838</u>	<u>\$ 83,424,042</u>

*Subsidy allowed

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note G - Loans Receivable (Continued)

	Loans Receivable	
	2023	2022
Investor-owned		
Artesian Water Company	\$ 9,878,234	\$ 6,508,313
Municipal Services Commission	371,617	-
Tidewater Utilities, Inc.	11,212,795	8,524,967
Willow Tree	25,800	-
Southern Shores Water Co, LLC	692,203	770,766
Total investor-owned	<u>22,180,649</u>	<u>15,804,046</u>
	100,931,487	99,228,088
Less: loans receivable - current portion	<u>8,889,607</u>	<u>7,505,229</u>
Loans receivable - net of current portion	<u>\$ 92,041,880</u>	<u>\$ 91,722,859</u>

Interest charged on these loans ranges from 0.00% to 3.75%. Interest earned on loans receivable and administrative fees was \$2,456,589 and \$2,458,788 for the years ended June 30, 2023 and 2022, respectively.

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

Except for the principal subsidy allowance, there was no allowance for doubtful accounts as of June 30, 2023 and 2022 based on historical experience. As of June 30, 2023 and 2022, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2023 and 2022. There has been no history of significant bad debts or uncollectible accounts.

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note G - Loans Receivable (Continued)

The allowance for subsidization as of June 30, 2023 and 2022 was \$2,139,744 and \$1,502,196, respectively.

Note H - State Match

As of June 2023, the Fund had disbursed all state match funding as follows:

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1997-2018 *	\$ 31,955,412	\$ 31,955,412	\$ -
2019	2,200,800	2,200,800	-
2020	2,202,200	2,202,200	-
2021	2,220,000	2,220,000	-
2022	3,200,800	3,200,800	-
Total	<u>\$ 41,779,212</u>	<u>\$ 41,779,212</u>	<u>\$ -</u>

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

Note I - Pension

Employees of the Fund are considered employees of the State and are covered under the State Employees' Pension Plan. Total pension cost of \$333,116 for 2023 and \$258,408 for 2022 is included in salaries and related benefits. As of June 30, 2023, the Fund was not allocated any portion of the overall State net pension liability.

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

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

There are two tiers within this plan:

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note I - Pension (Continued)

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

Vesting:

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

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

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

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

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

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

Contributions - Employer - determined by Board of Pension Trustees based on the actuarially determined rate. Employer contributions were 11.87% and 12.45% for fiscal years 2023 and 2022.

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

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

Death Benefit - \$7,000 per member.

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

State of Delaware Drinking Water Revolving Loan Fund

Notes to Financial Statements (Continued)

Years Ended June 30, 2023 and 2022

Note I - Pension (Continued)

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

Note J - Other Post-Employment Benefits (OPEB)

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the State Employees' Pension Plan. The OPEB Trust is administered by the Delaware Public Employees' Retirement System (DPERS) Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. As of June 30, 2023, the Fund was not allocated any portion of the overall State of Delaware net OPEB liability. Further information is available in the State's stand-alone financial report, issued for the OPEB Trust, online at <https://auditor.delaware.gov/reports>.

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

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

Eligibility:

Early Retirement:

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

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

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

General Assembly:

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

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

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

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

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

Benefits:

During the fiscal year ended June 30, 2023, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

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

Retiree Contributions:

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

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

Funding Policy:

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined, typically from the State's General Fund. Additional funding has also been provided on an ad hoc basis.

Contributions:

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

Note K - Commitments and Contingencies

1. Loans

The Fund has met its prior binding commitments (equal to at least 120% of each quarterly payment within one (1) year of receipt of that payment). As of June 30, 2023, there were \$40,433,697 in undisbursed loan proceeds for projects under construction. As of June 30, 2023, there were binding commitments of \$54,647,544.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note K - Commitments and Contingencies (Continued)

2. Cost Reimbursement Contracts

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

Note L - Risk Management

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

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

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

At June 30, 2023, there were no outstanding or pending claims against the Fund.

Note M - Lease-Lessee

At the commencement of a lease, the Fund initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured at the initial amount of the lease liability, adjusted for lease payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. The lease liabilities were discounted to a net present value at July 1, 2020 using a 3.25% interest rate.

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note M - Lease-Lessee (Continued)

Key estimates and judgements related to leases include how the Fund determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments as follows:

- The Fund uses the interest rate charged by the lessor as the discount rate if provided; otherwise, the Fund generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Fund is reasonably certain to exercise.
- The Fund monitors changes in circumstance that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as capital assets and lease liabilities are reported as long-term debt on the accompanying statement of net position.

DNREC leases office spaces through October 2027 with an allocation of 84% and 16%, between Clean Water and Drinking Water, respectively. Lease payments are due monthly with an increase of 2% annually.

DNREC entered into an agreement to lease a copier with an allocation of 84% and 16%, between Clean Water and Drinking Water, respectively. Along with an additional copier with 100% use allocation to Drinking Water. For the years ended June 30, 2023 and 2022, lease expense and lease interest expense reported on the statement of net activities were:

	Year Ending 2023	Year Ending 2022
Lease expense		
Amortization expense by class of underlying asset		
Office Space	\$ 9,219	\$ 8,754
Copy Machine	3,229	1,141
Total amortization expense	12,448	9,895
Interest on lease liabilities	1,556	1,745
Total	\$ 14,004	\$ 11,640

State of Delaware Drinking Water Revolving Loan Fund
Notes to Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

Note M - Lease-Lessee (Continued)

Future lease payments due to Lessor under the lease contracts are;

Maturity Analysis	Principal	Interest	Total Payments
Year Ending 2024	\$ 11,834	\$ 1,201	\$ 13,035
Year Ending 2025	9,663	852	10,515
Year Ending 2026	10,197	531	10,728
Year Ending 2027	<u>10,750</u>	<u>191</u>	<u>10,941</u>
Total future payments	<u>\$ 42,444</u>	<u>\$ 2,775</u>	<u>\$ 45,219</u>

Note N - Subsequent Events

The Fund's policy is to evaluate events and transactions subsequent to year end for potential recognition in the financial statements or disclosures in the notes to the financial statements. Management has evaluated all events and transactions through April 23, 2024 the date the financial statements were available to be issued.

Supplemental Information

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Sub-Fund
June 30, 2023

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current assets						
Pooled cash and investments	\$ 106,607,328	\$ -	\$ 2,266	\$ 23,799	\$ (3,334)	\$ 106,630,059
Loans receivable	8,889,607	-	-	-	-	8,889,607
Interest receivable	534,465	-	-	-	-	534,465
Federal grants receivable	1,176,694	38,773	65,589	107,473	239,377	1,627,906
Total current assets	117,208,094	38,773	67,855	131,272	236,043	117,682,037
Noncurrent assets						
Right-of-use asset	39,473	-	-	-	-	39,473
Loans receivable	92,041,880	-	-	-	-	92,041,880
Total assets	<u>\$ 209,289,447</u>	<u>\$ 38,773</u>	<u>\$ 67,855</u>	<u>\$ 131,272</u>	<u>\$ 236,043</u>	<u>\$ 209,763,390</u>
Liabilities						
Current liabilities						
Due to State	\$ 913,394	\$ 38,773	\$ 40,786	\$ 81,332	\$ 171,342	\$ 1,245,627
Short term lease liability	11,834	-	-	-	-	11,834
Vouchers payable	263,300	-	24,803	26,141	68,034	382,278
Noncurrent Liabilities						
Long term lease liability	30,610	-	-	-	-	30,610
Total Liabilities	1,219,138	38,773	65,589	107,473	239,376	1,670,349
Net position						
Net position - unrestricted	208,070,309	-	2,266	23,799	(3,333)	208,093,041
Total liabilities and net position	<u>\$ 209,289,447</u>	<u>\$ 38,773</u>	<u>\$ 67,855</u>	<u>\$ 131,272</u>	<u>\$ 236,043</u>	<u>\$ 209,763,390</u>

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Sub-Fund
June 30, 2022

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Assets						
Current assets						
Pooled cash and investments	\$ 95,521,035	\$ -	\$ 2,266	\$ 23,799	\$ (3,333)	\$ 95,543,767
Loans receivable	7,505,229	-	-	-	-	7,505,229
Interest receivable	552,836	-	-	-	-	552,836
Federal grants receivable	5,006,698	197,339	473,530	849,878	1,393,439	7,920,884
Total current assets	108,585,798	197,339	475,796	873,677	1,390,106	111,522,716
Noncurrent assets						
Right-of-use asset	46,488	-	-	-	-	46,488
Loans receivable	91,722,859	-	-	-	-	91,722,859
Total assets	<u>\$ 200,355,145</u>	<u>\$ 197,339</u>	<u>\$ 475,796</u>	<u>\$ 873,677</u>	<u>\$ 1,390,106</u>	<u>\$ 203,292,063</u>
Liabilities						
Current liabilities						
Due to State	\$ 4,480,225	\$ 197,339	\$ 461,793	\$ 822,730	\$ 1,355,202	7,317,289
Short term lease liability	9,072	-	-	-	-	9,072
Vouchers payable	526,473	-	11,737	34,454	38,237	610,901
Noncurrent liabilities						
Long term lease liability	39,979	-	-	-	-	39,979
Total liabilities	5,055,749	197,339	473,530	857,184	1,393,439	7,977,241
Net position						
Net position - unrestricted, as adjusted	195,299,396	-	2,266	16,493	(3,333)	195,314,822
Total liabilities and net position	<u>\$ 200,355,145</u>	<u>\$ 197,339</u>	<u>\$ 475,796</u>	<u>\$ 873,677</u>	<u>\$ 1,390,106</u>	<u>\$ 203,292,063</u>

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Sub-Fund
Year Ended June 30, 2023

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating revenues						
Interest income - loans	\$ 1,161,198	\$ -	\$ -	\$ -	\$ -	\$ 1,161,198
Interest income - administrative fees	1,295,391	-	-	-	-	1,295,391
Total operating revenues	2,456,589	-	-	-	-	2,456,589
Operating expenses						
Salaries and related benefits	106,681	-	510,807	863,818	1,325,158	2,806,464
Contract services	309,710	304,764	47,101	165,194	776,107	1,602,876
Grants	326,694	-	-	-	-	326,694
Indirect costs	-	-	-	-	-	-
Supplies	354,676	-	6,113	61,554	36,087	458,430
Training	-	-	-	-	-	-
Travel	-	-	4,111	2,927	11,773	18,811
Total operating expenses	1,097,761	304,764	568,132	1,093,493	2,149,125	5,213,275
Operating income (loss)	1,358,828	(304,764)	(568,132)	(1,093,493)	(2,149,125)	(2,756,686)
Nonoperating revenues and expenses						
Amortization	(12,448)	-	-	-	-	(12,448)
Lease Interest	(1,556)	-	-	-	-	(1,556)
Interest income - cash accounts	866,683	-	-	-	-	866,683
Grant revenue	17,352,400	304,764	568,132	1,100,799	2,149,125	21,475,220
State match	3,200,800	-	-	-	-	3,200,800
Subsidization through principal forgiveness	(9,993,794)	-	-	-	-	(9,993,794)
Total nonoperating revenues (expenses)	11,412,085	304,764	568,132	1,100,799	2,149,125	15,534,905
Transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net position	12,770,913	-	-	7,306	-	12,778,219
Net position - beginning of year	195,299,396	-	2,266	16,493	(3,333)	195,314,822
Net position - end of year	\$ 208,070,309	\$ -	\$ 2,266	\$ 23,799	\$ (3,333)	\$ 208,093,041

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Activities by Sub-Fund
Year Ended June 30, 2022

	Loan Fund	2% Technical Assistance	4% Administration	10% Program Management	15% Local Assistance	Total
Operating revenues						
Interest income - loans	\$ 1,229,364	\$ -	\$ -	\$ -	\$ -	\$ 1,229,364
Interest income - administrative fees	1,229,424	-	-	-	-	1,229,424
Total operating revenues	2,458,788	-	-	-	-	2,458,788
Operating expenses						
Salaries and related benefits	59,152	-	285,233	503,717	895,881	1,743,983
Contract services	318,228	126,157	95,251	63,893	208,455	811,984
Grants	421,608	-	-	-	-	421,608
Indirect costs	-	-	63,337	90,535	116,910	270,782
Supplies	252,537	-	43,529	50,280	22,790	369,136
Training	-	71,182	-	-	51,060	122,242
Travel	111	-	-	-	992	1,103
Total operating expenses	1,051,636	197,339	487,350	708,425	1,296,088	3,740,838
Operating income (loss)	1,407,152	(197,339)	(487,350)	(708,425)	(1,296,088)	(1,282,050)
Nonoperating revenues and expenses						
Amortization	(9,895)	-	-	-	-	(9,895)
Lease Interest	(1,745)	-	-	-	-	(1,745)
Grant revenue	4,618,673	197,339	489,883	731,893	1,299,068	7,336,856
State match	2,220,000	-	-	-	-	2,220,000
Subsidization through principal forgiveness	(3,203,655)	-	-	-	-	(3,203,655)
Total nonoperating revenues	3,623,378	197,339	489,883	731,893	1,299,068	6,341,561
Increase (decrease) in net position	5,030,530	-	2,533	23,468	2,980	5,059,511
Net position - beginning of year	190,268,866	-	(267)	(6,975)	(6,313)	190,255,311
Net position - end of year	\$ 195,299,396	\$ -	\$ 2,266	\$ 16,493	\$ (3,333)	\$ 195,314,822

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Net Position by Classification
June 30, 2023 and 2022

	2023				2022			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Assets								
Current assets								
Pooled cash and investments	\$ 22,731	\$ 99,767,547	\$ 6,839,781	\$ 106,630,059	\$ 22,732	\$ 88,862,876	\$ 6,658,159	\$ 95,543,767
Loans receivable - current portion	-	8,889,607	-	8,889,607	-	7,505,229	-	7,505,229
Interest receivable	-	267,542	266,923	534,465	-	276,746	276,090	552,836
Due to/(from)	-	-	-	-	-	-	-	-
Federal grants receivable	451,212	1,176,694	-	1,627,906	2,914,186	5,006,698	-	7,920,884
Total current assets	473,943	110,101,390	7,106,704	117,682,037	2,936,918	101,651,549	6,934,249	111,522,716
Noncurrent assets								
Right-of-Use Asset	-	-	39,473	39,473	-	-	46,488	46,488
Loans receivable, net of current portion	-	92,041,880	-	92,041,880	-	91,722,859	-	91,722,859
Total assets	\$ 473,943	\$ 202,143,270	\$ 7,146,177	\$ 209,763,390	\$ 2,936,918	\$ 193,374,408	\$ 6,980,737	\$ 203,292,063
Liabilities								
Current liabilities								
Due to State	332,233	913,394	-	1,245,627	2,837,064	4,480,225	-	\$ 7,317,289
Short Term Lease Liability	-	-	11,834	11,834	-	-	9,072	9,072
Vouchers payable	118,978	263,300	-	382,278	84,428	526,473	-	610,901
Long-Term liabilities								
Long-Term lease liabilities	-	-	30,610	30,610	-	-	39,979	39,979
Unearned revenue - state match	-	-	-	-	-	-	-	-
Total liabilities	451,211	1,176,694	42,444	1,670,349	2,921,492	5,006,698	49,051	7,977,241
Net position								
Net position - unrestricted	22,732	200,966,576	7,103,733	208,093,041	15,426	188,367,710	6,931,686	195,314,822
Total liabilities and net position	\$ 473,943	\$ 202,143,270	\$ 7,146,177	\$ 209,763,390	\$ 2,936,918	\$ 193,374,408	\$ 6,980,737	\$ 203,292,063

State of Delaware
Drinking Water Revolving Loan Fund
Schedule of Fund Activities by Classification
Year Ended June 30, 2023 and 2022

	2023				2022			
	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total	Federal Administrative Fund	Capital Reserve Fund	Nonfederal Administrative Fund	Total
Operating revenues								
Interest income - loans	\$ -	\$ 1,161,198	\$ -	\$ 1,161,198	\$ -	\$ 1,229,364	\$ -	\$ 1,229,364
Interest income - administrative fees	-	-	1,295,391	1,295,391	-	-	1,229,424	1,229,424
Total operating revenues	-	1,161,198	1,295,391	2,456,589	-	1,229,364	1,229,424	2,458,788
Operating expenses								
Salaries and related benefits	2,699,783	-	106,681	2,806,464	1,684,831	-	59,152	1,743,983
Contract services	1,293,166	-	309,710	1,602,876	493,756	-	318,228	811,984
Grants	-	-	326,694	326,694	-	-	421,608	421,608
Indirect costs	-	-	-	-	270,782	-	-	270,782
Supplies	103,754	-	354,676	458,430	116,599	-	252,537	369,136
Training	-	-	-	-	122,242	-	-	122,242
Travel	18,811	-	-	18,811	992	-	111	1,103
Total operating expenses	4,115,514	-	1,097,761	5,213,275	2,689,202	-	1,051,636	3,740,838
Operating income (loss)	(4,115,514)	1,161,198	197,630	(2,756,686)	(2,689,202)	1,229,364	177,788	(1,282,050)
Nonoperating revenues and expenses								
Amortization			(12,448)	(12,448)			(9,895)	(9,895)
Lease Interest			(1,556)	(1,556)			(1,745)	(1,745)
Interest income - cash accounts	-	810,719	55,964	866,683	-	-	-	-
Grant revenue	4,122,820	17,352,400	-	21,475,220	2,718,183	4,618,673	-	7,336,856
State match	-	3,200,800	-	3,200,800	-	2,220,000	-	2,220,000
Subsidization through principal forgiveness	-	(9,993,794)	-	(9,993,794)	-	(3,203,655)	-	(3,203,655)
Total nonoperating revenues (expenses)	4,122,820	11,370,125	41,960	15,534,905	2,718,183	3,635,018	(11,640)	6,341,561
Transfers in (out)	-	67,543	(67,543)	-	-	33,635	(33,635)	-
Change in net position	7,306	12,598,866	172,047	12,778,219	28,981	4,898,017	132,513	5,059,511
Net position - beginning of year	15,426	188,367,710	6,931,686	195,314,822	(13,555)	183,469,693	6,799,173	190,255,311
Net position - end of year	\$ 22,732	\$ 200,966,576	\$ 7,103,733	\$ 208,093,041	\$ 15,426	\$ 188,367,710	\$ 6,931,686	\$ 195,314,822



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the State of Delaware Drinking Water Revolving Loan Fund (the "Fund"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

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Purpose of this Report

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

Harrisburg, Pennsylvania
April 23, 2024

Zelenkofske Axelrod LLC

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