Delaware Manufactured Home Relocation Authority

Financial Statements and
Independent Auditors' Report

June 30, 2007

Table of Contents

Page

Independent Auditors' Report 3

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* 5

Financial Statements

Statement of Net Assets 7

Statement of Revenues, Expenses, and Changes in Net Assets 8

Statement of Cash Flows 9

Notes to Financial Statements 10

Additional Information

Schedule of Program Services 14

Schedule of Support Services 15

Schedule of Finding and Recommendations 16

Santora CPA Group
Innovation. Solutions. Results.

William A. Santora, CPA
John A. D'Agostino, CPA, MST
Heath N. Kahrs, CPA

Robert Freed, Principal
Linda A. Pappajohn, Principal

Independent Auditors' Report

To the Board of Directors
Delaware Manufactured Home Relocation Authority

We have audited the accompanying financial statements of the business-type activities of the Delaware Manufactured Home Relocation Authority (the Authority), a component unit of the State of Delaware, as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Due to inadequacies of the Authority's accounting records, we were unable to form an opinion regarding the amounts of accounts receivable as of June 30, 2007 in the statement of net assets (stated at $185,273) and assessment revenue in the accompanying statement of revenues, expenses, and changes in net assets (stated at $773,913).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had accounts receivable and assessment revenue been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Manufactured Home Relocation Authority as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

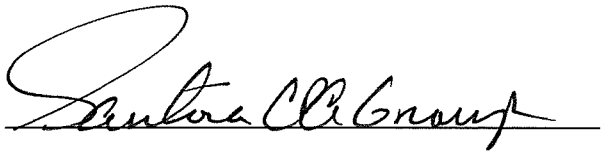
Christiana Executive Campus ▲ 220 Continental Drive ▲ Suite 112 ▲ Newark, DE 19713-4309
Phone: (302) 737-6200 ▲ (800) 347-0116 ▲ Fax:(302) 737-3362
E-Mail:info@santoracpagroup.com ▲ www.santoracpagroup.com

To the Board of Directors

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The Authority has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 30, 2007
Newark, Delaware

Santora CPA Group
Innovation. Solutions. Results.

William A. Santora, CPA
John A. D'Agostino, CPA, MST
Heath N. Kahrs, CPA

Robert Freed, Principal
Linda A. Pappajohn, Principal

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

To the Board of Directors
Delaware Manufactured Home Relocation Authority

We have audited the financial statements of the Delaware Manufactured Home Relocation Authority (the Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and responses as item 07-DMHRA-01 to be a significant deficiency.

Christiana Executive Campus ▲ 220 Continental Drive ▲ Suite 112 ▲ Newark, DE 19713-4309
Phone: (302) 737-6200 ▲ (800) 347-0116 ▲ Fax:(302) 737-3362
E-Mail:info@santoracpagroup.com ▲ www.santoracpagroup.com

To the Board of Directors

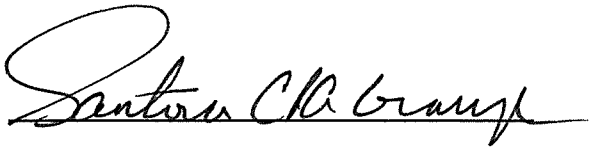
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 07-DMHRA-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 these 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.*

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



November 30, 2007
Newark, Delaware

Delaware Manufactured Home Relocation Authority

Statement of Net Assets

June 30, 2007

Assets

CURRENT ASSETS	
Cash and cash equivalents	$ 1,676,926
Accounts receivable	185,273
Interest receivable	7,381
TOTAL ASSETS	$ 1,869,580

Liabilities and Net Assets

CURRENT LIABILITIES	
Accounts payable	$ 2,020
NET ASSETS - UNRESTRICTED	1,867,560
TOTAL LIABILITIES AND NET ASSETS	$ 1,869,580

See notes to financial statements.

Delaware Manufactured Home Relocation Authority

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2007

REVENUES	
Assessments	$ 773,913
EXPENSES	
Program services	99,162
Support services	71,690
	170,852
OPERATING INCOME	603,061
NONOPERATING REVENUE	
Interest income	72,494
CHANGE IN NET ASSETS, UNRESTRICTED	675,555
NET ASSETS - BEGINNING OF YEAR	1,192,005
NET ASSETS - END OF YEAR	$ 1,867,560

See notes to financial statements.

Delaware Manufactured Home Relocation Authority

Statement of Cash Flows

For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from communities	$ 812,747
Cash payments to community owners and tenants for program services	(99,162)
Cash payments to vendors for goods and services	(78,215)
Net cash provided by operating activities	635,370
CASH FLOWS FROM INVESTING ACTIVITY	
Interest on cash and cash equivalents	65,113
Net cash provided by investing activity	65,113
Net increase in cash	700,483
CASH - BEGINNING OF YEAR	976,443
CASH - END OF YEAR	$ 1,676,926
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 603,061
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities	
Decrease in accounts receivable	38,835
Decrease in prepaid expenses	1,500
Decrease in accounts payable	(8,026)
Net cash provided by operating activities	$ 635,370

See notes to financial statements.

Delaware Manufactured Home Relocation Authority

Notes to Financial Statements

Note A - Summary of Significant Accounting Policies

1. Organization

The Delaware Manufactured Home Relocation Authority (the Authority) was established in 2003 pursuant to Title 25 of the Delaware Code, Section 7011 for the purpose of the administration and operation of the Delaware Manufactured Home Relocation Trust Fund (the Trust Fund).

The Authority is comprised of a noncompensated Board of Directors appointed by the Governor from among community owners and residents. The Trust Fund is funded by quarterly assessments collected by the property owner and funded 50% from the property owners/landlords and 50% from the tenants. The sole purpose of the Trust Fund is to assist community owners and tenants when a change in the use of the land occupied by the tenant requires termination of the existing rental agreement. The Authority has set payment limits for nonrelocatable homes. The cap on the Trust Fund is $10 million. The Trust Fund terminates on July 1, 2014 unless terminated sooner or extended by the General Assembly.

2. Reporting Entity

The Authority is a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The Authority has no component units for which it is considered to be financially accountable. The Authority's activities are financed and operated as an enterprise fund as costs and expenses of providing services are recovered primarily through user charges.

The Authority is not discreetly presented in the State of Delaware's Comprehensive Annual Financial Report because it is not material, as a whole, to the State of Delaware's financial report.

3. Basis of Accounting

In accordance with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, which requires recognition of revenues when earned and expenses when incurred. The Authority has elected not to apply all

Note A - Summary of Significant Accounting Policies (Continued)

3. Basis of Accounting (Continued)

Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.*

4. Cash and Cash Equivalents

Cash and cash equivalents are considered to be demand deposits, short-term investments, and other deposits held by financial institutions with original maturities of three months or less. The cash and cash equivalents within the Authority's Trust Fund are controlled by the State Treasurer's Office in Dover, Delaware. The Authority controls the operating account.

5. Receivables

All receivables are considered fully collectible by management. No allowance for bad debts is deemed necessary.

6. Revenue and Expense Recognition

Operating revenues consist of quarterly assessments from property owners on behalf of the landlord and tenant of each rented lot. Operating expenses include both program and support services. Program services include payments to manufactured home owners/tenants for reimbursements for moving costs and nonrelocatable homes, and payments to manufactured home community owners for removal and/or disposal of nonrelocatable or abandoned homes when there is a change in land use. Support services includes all other operating expenses.

Interest earned from the investment or deposit of monies in the Trust Fund is deposited into the Trust Fund periodically by the personnel of the State of Delaware, Department of Finance, Division of Revenue.

Note A - Summary of Significant Accounting Policies (Continued)

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Those estimates and assumptions 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note B - Restricted Cash

At June 30, 2007, the Authority had a cash and cash equivalents balance of $1,676,926. Of that amount, $1,658,857 was part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the Authority, but the credit risk cannot be categorized. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

The operating account is in the custody of the Authority's officials. The book and bank balances of these funds were $18,069. The bank balance of cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits.

Note C - Commitments and Contingencies

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Authority does not anticipate losses from these transactions.

Note D - Accounts Receivable

Accounts receivable was $185,273 at June 30, 2007. While management considers this amount reasonable, accounts receivable may be underreported. The Authority is unable to determine if all manufactured home communities are being properly assessed due to the fact that a complete listing of manufactured home communities has never been compiled by any government agency or organization. The Authority is in the process of compiling a complete listing. Any manufactured home community that has not paid the past assessments must pay all retroactive assessments since the inception of the Authority in 2003.

Note E - Related Party Transactions

As stated in Note A, certain members of the Authority's Board of Directors are manufactured home community owners or manage manufactured home communities. These members have paid quarterly assessments of $121,721 into the Trust Fund during the year ended June 30, 2007. At June 30, 2007, accounts receivable due from related parties was $27,311.

Delaware Manufactured Home Relocation Authority

Schedule of Program Services

For the Year Ended June 30, 2007

PROGRAM SERVICE EXPENSES	
Reimbursements for moving costs	$ 14,812
Payments for nonrelocatable homes	57,350
Payments for abandoned homes	27,000
TOTAL PROGRAM SERVICES	$ 99,162

Delaware Manufactured Home Relocation Authority

Schedule of Support Services

For the Year Ended June 30, 2007

PERSONNEL	
Salaries and wages	$ 13,260
Payroll taxes	1,478
	14,738
OCCUPANCY	
Rent	2,511
Utilities	1,587
	4,098
PROFESSIONAL FEES	
Accounting fees	13,361
Bookkeeping and payroll processing	19,578
Legal fees	18,564
	51,503
OTHER GENERAL AND ADMINISTRATIVE	
Bank charges	80
Copying	35
Miscellaneous	(102)
Office expenses	650
Postage	374
Supplies	231
Travel expenses	83
	1,351
TOTAL SUPPORT SERVICES	$ 71,690

Delaware Manufactured Home Relocation Authority

Schedule of Findings and Recommendations
For the Year Ended June 30, 2007

Reference Number: 07-DMHRA-01
Type of Finding: Material Weakness
Financial Statement Accounts: Accounts Receivable/Revenue

Criteria

One objective of proper internal controls, as they relate to the revenue cycle, is to ensure that recorded balances of revenues and accounts receivable, and related transaction activity, are periodically substantiated and evaluated by management to ensure completeness.

Condition

During the work performed to gain an understanding of the Delaware Manufactured Home Relocation Authority's (the Authority) internal control, which is part of an audit of the financial statements, we noted a lack of internal controls to ensure that all revenue and accounts receivables have been properly recorded within the financial statements.

Cause

Based on our understanding of the Authority's internal controls, there currently does not exist a complete and accurate listing of manufactured home communities within the State of Delaware, which includes the number of lots within each community, to ensure that all communities are remitting assessments. In addition, the Authority currently has no means of determining whether the amounts remitted by a community are accurate and complete.

Effect

The Authority is unable to determine if all communities are remitting assessments as required by the State of Delaware Manufactured Home Owners and Community Owners Act (25 Del Code, Chapter 70) and whether the amounts remitted represent an accurate and complete assessment of each community.

Recommendation

The Authority should create a database listing of all manufactured home communities, including the number of lots within each community, in order to determine if all communities are being properly assessed and to track the assessments paid by each community. By the Authority preparing this list and reconciling the assessments received, this will reduce the risk of under reporting these balances, thereby helping to ensure the completeness of both accounts receivable and revenues included on the financial statements. In addition, the Authority should consider performing site visits to a certain number of communities during the year to determine the reasonableness of the quarterly assessment remitted as compared to the number of lots being utilized at the respective community.

Response of Responsible Officials

Agency Contact Name	Stephen Class
Agency Contact Phone Number	302-644-4758
Corrective Action Plan	The Authority has obtained information from the property tax assessment departments of the three counties in the State of Delaware concerning manufactured home communities. The Authority has reviewed the information and is currently in the process of reconciling the listing of manufactured home communities to its listing of deposits received from those manufactured home communities which are currently reporting and remitting assessments. After this reconciliation process is complete, the Authority will contact the owners of the manufactured home communities which have not been reporting and remitting assessments and determine whether assessments are in arrears, at which time receivables and revenues will be recorded. A target date of June 30, 2008 has been established to complete the reconciliation process. The Authority is also discussing the possibility of adding additional part-time individuals to visit selected manufactured home communities and inspect the records to determine whether the reporting and remittance of assessments is in compliance with the statutes governing the enforcement of the law. These discussions will produce the most effective method to monitor the manufactured home communities based on a cost/benefit analysis. A target date to discuss and create the new policies and procedures will be during fiscal year 2008, with an establishment date to be during fiscal year 2009.
Anticipated Completion Date	June 30, 2008