Delaware Manufactured Home Relocation Authority

Financial Statements and Independent Auditors' Report

June 30, 2011 and 2010

Report Issued: March 8, 2012

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Independent Auditors' Report

To the Board of Directors
Delaware Manufactured Home Relocation Authority

We have audited the accompanying statements of net assets of the Delaware Manufactured Home Relocation Authority (the Authority) as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. 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 audits.

Except as discussed in the following paragraph, we conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

Based on the inherent complexity of determining the completeness of the Authority's accounts receivable and assessment revenue, we were unable to form an opinion regarding the amounts of accounts receivable as of June 30, 2011 and 2010 in the statements of net assets (stated at $182,813 and $234,593, respectively) and assessment revenue in the accompanying statements of revenues, expenses, and changes in net assets (stated at $713,987 and $822,601, respectively).

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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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To the Board of Directors

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, 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 audits.

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, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were 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 audits 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.

January 31, 2012
Newark, Delaware

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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*

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 years ended June 30, 2011 and 2010, and have issued our report thereon dated January 31, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a material weakness (Reference Number: 11-DMHRA-01).

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all the deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all

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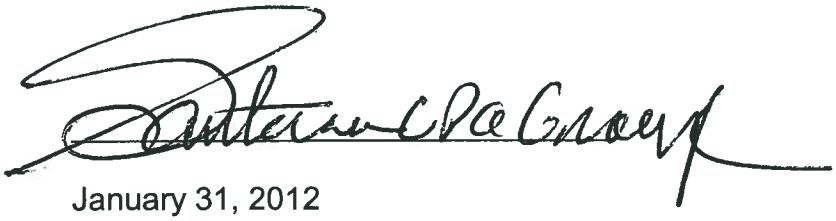
deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 audits, 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.



January 31, 2012
Newark, Delaware

Delaware Manufactured Home Relocation Authority

Statements of Net Assets

June 30, 2011 and 2010

Assets

	2011	2010
CURRENT ASSETS		
Cash	$ 4,384,427	$ 3,698,619
Accounts receivable	182,813	234,593
Interest receivable	1,848	2,459
Prepaid expenses	-	1,500
TOTAL ASSETS	$ 4,569,088	$ 3,937,171

Liabilities and Net Assets

CURRENT LIABILITIES		
Accounts payable	$ 1,569	$ 6,178
Deferred revenue	-	1,656
Total current liabilities	1,569	7,834
NET ASSETS - RESTRICTED	4,567,519	3,929,337
TOTAL LIABILITIES AND NET ASSETS	$ 4,569,088	$ 3,937,171

See notes to financial statements.

Delaware Manufactured Home Relocation Authority

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2011 and 2010

	2011	2010
REVENUES		
Assessments	$ 713,987	$ 822,601
EXPENSES		
Support services	100,556	150,531
OPERATING INCOME	613,431	672,070
NONOPERATING REVENUE		
Interest income	24,751	32,166
CHANGE IN NET ASSETS	638,182	704,236
NET ASSETS - RESTRICTED - BEGINNING OF YEAR	3,929,337	3,225,101
NET ASSETS - RESTRICTED - END OF YEAR	$ 4,567,519	$ 3,929,337

See notes to financial statements.

Delaware Manufactured Home Relocation Authority

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from communities	$ 764,111	$ 804,666
Cash payments to vendors for goods and services	(103,665)	(154,157)
Net cash provided by operating activities	660,446	650,509
CASH FLOWS FROM INVESTING ACTIVITY		
Interest on cash and cash equivalents	25,362	33,138
Net cash provided by investing activity	25,362	33,138
Net increase in cash	685,808	683,647
CASH - BEGINNING OF YEAR	3,698,619	3,014,972
CASH - END OF YEAR	$ 4,384,427	$ 3,698,619
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 613,431	$ 672,070
Adjustments to reconcile operating income to net cash provided by operating activities		
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	51,780	(19,591)
(Increase) decrease in prepaid expenses	1,500	(1,500)
Decrease in accounts payable	(4,609)	(2,126)
Decrease in deferred revenue	(1,656)	1,656
Net cash provided by operating activities	$ 660,446	$ 650,509

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 relocatable abandoned 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 related organization of the State of Delaware (the State). 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 presented in the State's Comprehensive Annual Financial Report because it is a related organization and has not met the criteria to be considered a component unit of the State.

3. Basis of Accounting

The Authority operates as an enterprise fund. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Note A - Summary of Significant Accounting Policies (Continued)

3. Basis of Accounting (Continued)

The Authority has elected not to apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Government Accounting Standards Board 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. Operating Revenues and Expenses

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 include 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.

8. Net Assets

The statements of net assets reports $4,567,519 and $3,929,337 of net assets restricted by enabling legislation as of June 30, 2011 and 2010, respectively.

Note B - Restricted Cash

At June 30, 2011 and 2010, the Authority had a cash and cash equivalents balance of $4,384,427 and $3,698,619, respectively. Of those amounts, $4,354,357 and $3,669,884, respectively, were part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware. 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 they are recorded as cash equivalents in the 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 at June 30, 2011 and 2010 were $29,768 and $28,628, respectively. The bank balance of cash deposits is insured by the Federal Deposit Insurance Corporation; 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 at June 30, 2011 and 2010 was $182,813 and $234,593, respectively. While management considers these amounts reasonable, accounts receivable may be underreported. The Authority is unable to determine if all manufactured home communities are remitting assessments in accordance with enacted legislation. Any manufactured home community that has not paid the past assessments will have to pay all retroactive assessments since the date of initial assessment, April 1, 2004.

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 $84,067 and $86,611 into the Trust Fund during the years ended June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, accounts receivable due from related parties was $21,215 and $21,109, respectively.

Additional Information

Delaware Manufactured Home Relocation Authority

Schedules of Support Services

For the Years Ended June 30, 2011 and 2010

	2011	2010
PERSONNEL		
Salaries and wages	$ 29,673	$ 34,585
Payroll taxes	2,426	2,851
	32,099	37,436
OCCUPANCY		
Rent	2,925	2,700
Utilities	1,795	1,915
	4,720	4,615
PROFESSIONAL FEES		
Accounting fees	30,568	40,327
Consulting fees	90	-
Bookkeeping and payroll processing	6,390	19,560
Legal fees	20,932	36,363
	57,980	96,250
OTHER GENERAL AND ADMINISTRATIVE		
Computer expenses	100	2,284
Copying	81	86
Office and supplies expense	363	454
Postage	594	872
Travel expenses	4,619	8,534
	5,757	12,230
TOTAL SUPPORT SERVICES	$ 100,556	$ 150,531

Delaware Manufactured Home Relocation Authority

Schedule of Findings and Recommendations

For the Year Ended June 30, 2011

Reference Number: 11-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 Authority's internal control, which is part of an audit of the financial statements, as well as prior audit experience, 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, 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

Delaware Manufactured Home Relocation Authority

Schedule of Findings and Recommendations (Continued)

For the Year Ended June 30, 2011

Recommendation (Continued)

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	**Richard Lemire**
Agency contact phone number	(302) 292-3629
Corrective action plan	After given the opportunity, the Authority chose not to respond.
Anticipated completion date	