

Gunnip & company LLP

Certified Public Accountants and Consultants

**State of Delaware
Delaware Agricultural Lands Preservation Foundation
Dover, Delaware**

**Financial Statements
Years Ended June 30, 2013 and 2012**

Report Issued: June 17, 2014

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Independent Auditor's Report

To the Management
Delaware Agricultural Lands Preservation Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Agricultural Lands Preservation Foundation (the Foundation) of the State of Delaware, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities and special fund of the Foundation as of June 30, 2013 and 2012, and the respective changes in the financial positions for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule on pages 3 through 9 and pages 27 through 29, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Gunnip & Company LLP

April 23, 2014

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis
June 30, 2013 and 2012**

Our discussion and analysis of the Delaware Agricultural Lands Preservation Foundation's (the Foundation) financial performance provides an overview of the Foundation's financial activities for the years ended June 30, 2013 and June 30, 2012.

Financial Highlights

For the Year Ended June 30, 2013, the Foundation's assets increased by \$8,937,531, to \$219,781,211 from \$210,843,680. The assets increased by \$13,266,608 to \$210,843,680 from \$197,577,072 for the Year Ended June 30, 2012.

For the Year Ended June 30, 2013, the Foundation's net position increased by \$8,938,521, to \$219,742,198 from \$210,803,677. The net position increased by \$13,125,376 to \$210,803,677 from \$197,678,301 for the Year Ended June 30, 2012.

Using This Financial Report

This financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Foundation as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

Reporting the Foundation as a Whole

The Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities report information about the Foundation as a whole and about its activities that are necessary in determining whether the Foundation's financial health is improving or deteriorating. These statements include all assets and liabilities using the current financial resources measurement focus and the modified accrual basis of accounting. All revenues and expenses pertaining to the Years Ended June 30, 2013 and 2012 are taken into consideration regardless of when cash is received or paid.

Reporting the Foundation's Most Significant Funds

Fund Financial Statements

All of the Foundation's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at the end of the fiscal year available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Foundation's general government operations and the basic services it provides.

Our analysis of the Foundation's major funds and fund financial statements provides detailed information about the most significant funds – not the Foundation as a whole.

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013 and 2012**

Entity-Wide Financial Analysis

A comparative net position analysis of the Year Ended June 30, 2013 and the Year Ended June 30, 2012 follows

	Net Position	
	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Pooled cash and investments	\$ 7,994,510	\$ 665,008
Loans receivable - current	3,437	5,730
Rollback taxes receivable	52,359	14,662
Total current assets	8,050,306	685,400
Noncurrent Assets		
Capital assets, net of depreciation	209,953,342	208,779,663
Loans receivable, less current portion	1,777,563	1,378,617
Total noncurrent assets	211,730,905	210,158,280
Total Assets	\$ 219,781,211	\$ 210,843,680
Liabilities		
Current liabilities		
Accounts payable	\$ 26,052	\$ 25,490
Accrued salaries and related costs	6,166	5,671
Total current liabilities	32,218	31,161
Long-term liabilities		
Compensated absences	6,795	8,842
Total liabilities	39,013	40,003
Net position		
Invested in capital assets	209,953,342	208,779,663
Restricted	9,788,856	2,024,014
Total net position	\$ 219,742,198	\$ 210,803,677

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013 and 2012**

At the close of the Year Ended June 30, 2013, the Foundation's assets exceeded its liabilities by \$219,742,198. At the close of the Year Ended June 30, 2012, the Foundation's assets exceeded its liabilities by \$210,803,677. In both years these assets primarily consisted of capital assets, pooled cash and investments, and loans receivable. The majority of the accounts payable left at the end of both fiscal years were monthly charges for items such as vehicle rental and utilities along with some legal and mapping fees.

For the Year Ended June 30, 2013, capital assets, net of depreciation, increased by \$1,173,679 to \$209,953,342 from \$208,779,663, while in the Year Ended June 30, 2012 capital assets, net of depreciation, increased by \$13,654,670 to \$208,779,663 from \$195,124,993. For the Year Ended June 30, 2013, a lower amount of farmland easements were purchased because the fiscal year began at the end of one buying round and ended at the start of another, not to any lack of public interest in the program. Most of the remaining appropriation is expected to be spent in the Year Ended June 30, 2014.

For the Year Ended June 30, 2013, pooled cash and investments increased by \$7,329,502 to \$7,994,510 from \$665,008, while for the Year Ended June 30, 2012, pooled cash and investments decreased by \$1,885,163 to \$665,008 from \$2,550,171. Due to the low volume of farmland easements purchased during the Year Ended June 30, 2013, the Foundation retained more of its annual appropriation than usual, which remained in pooled cash and investments at the end of the fiscal year.

Beginning in fiscal year 2012, a new program known as the Young Farmers program was created by the State of Delaware to provide loans to farmers aged 40 or younger seeking to acquire their own farms. Based upon the present value of the loan repayments for the program, the Foundation recognized a grant expense of \$481,145 during the Year Ended June 30, 2013, a decrease of \$706,801 from the grant expense of \$1,187,946 recognized during the first year of the program. The decrease is attributable to fewer farmers applying and qualifying for loans in the Year Ended June 30, 2013. Loan collections totaled \$5,730 during the Year Ended June 30, 2013, which was the first year in which a loan began repayment.

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013 and 2012**

Changes in Net Position

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Revenues		
General revenues		
Earnings on pooled cash and investments	\$ 770	\$ 1,383
Charges to county governments	-	595,714
Rollback taxes	53,768	14,795
License plate income	4,655	4,270
Miscellaneous income	10,500	9,000
Program revenues		
Operating grants and contributions	7,000,000	7,000,000
Capital grants and contributions	-	4,461,071
Young farmers	3,042,122	3,000,000
	<hr/>	<hr/>
Total revenues	10,111,815	15,086,233
Expenses		
Farmland preservation	(192,500)	(230,620)
Young farmers	(519,011)	(1,226,323)
Administrative services		
Operating services	(179,851)	(214,244)
Contractual services	(278,477)	(281,908)
Compensated absences	2,047	(165)
Depreciation expense	(5,502)	(7,597)
	<hr/>	<hr/>
Total expenses	(1,173,294)	(1,960,857)
Change in net position	<u>\$ 8,938,521</u>	<u>\$ 13,125,376</u>

Governmental activities

Earnings on pooled cash and investments, which were earned on Wilson Farm funds only, decreased to \$770 for the Year Ended June 30, 2013 from \$1,383 for the Year Ended June 30, 2012.

County reimbursement money is not recognized by fiscal year but by rounds, the cycles in which new farm easements are purchased and added to the preservation program. The counties agree to reimburse the Foundation up to a certain amount for selected properties in each round to be determined by percentage on each property.

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013 and 2012**

The Foundation did not receive any funding from the counties for the Year Ended June 30, 2013, as Round 17 easement purchases did not begin occurring until the end of that fiscal year. For the Year Ended June 30, 2012, the Foundation received \$595,714 in county reimbursements for easements purchased in Round 16.

Rollback taxes are assessed on land which has been valued, assessed, and taxed as agricultural land, but has been used for purposes other than farming. A portion of these taxes go to the school district in which the property is located, and the Foundation receives the remainder less a 7.5% paid to the county in which the property is located. Rollback tax revenue increased to \$53,768 for the Year Ended June 30, 2013 from \$14,795 for the Year Ended June 30, 2012. The increase in this source of revenue indicates that more farmland was used for development in the Year Ended June 30, 2013 than was the case in the Year Ended June 30, 2012.

License plate income increased to \$4,655 for the Year Ended June 30, 2013, from \$4,270 for the Year Ended June 30, 2012.

Operating grants and contributions represents funding from the State. For the Year Ended June 30, 2013, the Foundation received \$10,000,000 in grant funding from the State of Delaware, with \$6,499,000 and \$501,000 appropriated to farmland preservation and its corresponding administrative services, respectively, and \$3,000,000 appropriated to the Young Farmers program.

For the Year Ended June 30, 2012, the Foundation received \$10,000,000 in grant funding from the State of Delaware, with \$6,501,800 and \$498,200 appropriated to farmland preservation and its corresponding administrative services, respectively, and \$3,000,000 appropriate to the Young Farmers program in its first year of operation.

Capital grants and contributions represent funding from the State. The Foundation did not receive any federal funding during the Year Ended June 30, 2013 because no federally funded easements were purchased by the Foundation during the fiscal year. The Foundation received \$4,461,071 in federal funds during the Year Ended June 30, 2012.

While expenses for administrative services were fairly consistent for the Years Ended June 30, 2013 and June 30, 2012, farmland preservation expenses decreased \$38,120, to \$192,500 for the Year Ended June 30, 2013 from \$230,620 for the Year Ended June 30, 2012 due to fiscal year 2013 falling between easement purchasing rounds. Young farmers expenses decreased \$707,312, to \$519,011 for the Year Ended June 30, 2013 from \$1,226,323 for the Year Ended June 30, 2012 as fewer expenses were incurred as fewer loans were disbursed.

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013 and 2012**

Governmental Funds

**Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Special Revenue Fund**

	<u>2013</u>	<u>2012</u>
Revenues		
State appropriation	\$ 7,000,000	\$ 7,000,000
Federal grant	-	4,461,071
Young farmers	3,042,122	3,000,000
Charges to county governments	-	595,714
Rollback taxes	53,768	14,795
License plate income	4,655	4,270
Earnings on pooled cash and investments	770	1,383
Other income	10,500	9,000
	<hr/>	<hr/>
Total revenues	10,111,815	15,086,233
Expenditures		
Farmland preservation	192,500	230,620
Administrative services		
Operating services	179,851	214,244
Contractual services	278,477	281,908
Young farmers	519,011	1,226,323
Capital outlays		
Equipment	3,348	6,615
Property	1,175,833	13,655,651
	<hr/>	<hr/>
Total expenditures	2,349,020	15,615,361
Net change in fund balances	7,762,795	(529,128)
Fund balances - beginning of year	2,032,856	2,561,984
	<hr/>	<hr/>
Fund balances - end of year	<u>\$ 9,795,651</u>	<u>\$ 2,032,856</u>

**State of Delaware
Delaware Agricultural Lands Preservation Fund**

**Management's Discussion and Analysis - Continued
June 30, 2013 and 2012**

Overall, for the Special Revenue Fund, revenues exceeded expenses in fiscal year 2013, resulting in a \$7,762,795 increase in fund balances and expenses exceeded revenues in fiscal year 2012, resulting in a \$529,128 decrease in fund balances. The primary reason for the change between the fiscal years is because the Foundation incurred much less capital outlays for farmland easement purchases for the Year Ended June 30, 2013, as the majority of the Year Ended June 30, 2013 fell between easement purchasing rounds.

Requests for Information

This financial data is designed to provide a general overview of the Delaware Agricultural Lands Preservation Foundation's finances for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Accounting Specialist, Delaware Agricultural Lands Preservation Foundation, 2320 South DuPont Highway, Dover, Delaware 19901.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Statements of Net Position
June 30, 2013 and 2012**

	Governmental Activities	
	2013	2012
Assets		
Current assets		
Pooled cash and investments	\$ 7,994,510	\$ 665,008
Loans receivable - current	3,437	5,730
Rollback taxes receivable	52,359	14,662
Total current assets	8,050,306	685,400
Noncurrent assets		
Capital assets, net of depreciation	209,953,342	208,779,663
Loans receivable, less current portion	1,777,563	1,378,617
	211,730,905	210,158,280
Total assets	\$ 219,781,211	\$ 210,843,680
Liabilities		
Current liabilities		
Accounts payable	\$ 26,052	\$ 25,490
Accrued salaries and related costs	6,166	5,671
Total current liabilities	32,218	31,161
Long-term liabilities		
Compensated absences	6,795	8,842
Total liabilities	39,013	40,003
Net Position		
Invested in capital assets	209,953,342	208,779,663
Restricted by enabling legislation	9,788,856	2,024,014
Total net position	219,742,198	210,803,677
Total liabilities and net assets	\$ 219,781,211	\$ 210,843,680

See accompanying notes to the financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Statement of Activities
For the Fiscal Year Ended June 30, 2013

		Program revenues			Net revenues and change in the net position
Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Total	
Governmental activities					
Farmland preservation	\$ (192,500)	\$ -	\$ 6,499,000	\$ -	\$ 6,306,500
Young farmers program	(519,011)	-	-	3,042,122	2,523,111
Administrative services					
Operating services	(177,804)	-	220,200	-	42,396
Contractual services	(278,477)	-	280,800	-	2,323
Depreciation expense	(5,502)				(5,502)
Total governmental activities	\$ (1,173,294)	\$ -	\$ 7,000,000	\$ 3,042,122	\$ 8,868,828
			General revenues:		
			Earnings on pooled cash and investments	770	
			Rollback taxes	53,768	
			Plates income	4,655	
			Wilson farm lease income	10,500	
			Total general revenues	69,693	
			Change in net assets	8,938,521	
			Net position - beginning of year	210,803,677	
			Net position - end of year	\$ 219,742,198	

See accompanying notes to the financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Expenses	Program revenues			Net revenues and change in the net position
		Charges for services	Operating grants and contributions	Capital grants and contributions	Total
Governmental activities					
Farmland preservation	\$ (230,620)	\$ -	\$ 6,501,800	\$ 4,461,071	\$ 10,732,251
Young farmers program	(1,226,323)	-	-	3,000,000	1,773,677
Administrative services					
Operating services	(214,409)	-	191,750	-	(22,659)
Contractual services	(281,908)	-	306,450	-	24,542
Depreciation expense	(7,597)				(7,597)
Total governmental activities	<u>\$ (1,960,857)</u>	<u>\$ -</u>	<u>\$ 7,000,000</u>	<u>\$ 7,461,071</u>	\$ 12,500,214

General revenues:

Earnings on pooled cash and investments	1,383
Charges to county governments	595,714
Rollback taxes	14,795
Plates income	4,270
Wilson farm lease income	9,000
Total general revenues	<u>625,162</u>
Change in net assets	13,125,376
Net position- beginning of year	<u>197,678,301</u>
Net position - end of year	<u>\$ 210,803,677</u>

See accompanying notes to the financial statements.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Balance Sheets
June 30, 2013 and 2012**

	Special Revenue Fund	
	2013	2012
Assets		
Current assets		
Pooled cash and investments	\$ 7,994,510	\$ 665,008
Loans receivable - current	3,437	3,336
Rollback taxes receivable	52,359	14,662
Total current assets	8,050,306	683,006
Noncurrent assets		
Loans receivable	1,777,563	1,381,011
Total assets	\$ 9,827,869	\$ 2,064,017
Liabilities		
Current liabilities		
Accounts payable	\$ 26,052	\$ 25,490
Accrued salaries and related costs	6,166	5,671
Total current liabilities	32,218	31,161
Total liabilities	32,218	31,161
Fund balance		
Restricted by enabling legislation	9,795,651	2,032,856
Total liabilities and fund balance	\$ 9,827,869	\$ 2,064,017

See accompanying notes to the financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Reconciliation of Balance Sheets to Statements of Net Position
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Total fund balances	\$ 9,795,651	\$ 2,032,856
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.	209,953,342	208,779,663
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:		
Compensated absences	<u>(6,795)</u>	<u>(8,842)</u>
Total net position – governmental activities	<u>\$ 219,742,198</u>	<u>\$ 210,803,677</u>

See accompanying notes to the financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Statements of Revenues, Expenditures and Changes in Fund Balance
June 30, 2013 and 2012

	Special Revenue Fund	
	2013	2012
Revenues		
State appropriation for farmland preservation	\$ 7,000,000	\$ 7,000,000
Federal grant	-	4,461,071
Young farmers grant	3,042,122	3,000,000
County reimbursements	-	595,714
Rollback taxes	53,768	14,795
License plate income	4,655	4,270
Wilson farm lease income	10,500	9,000
Interest income	770	1,383
	<hr/>	<hr/>
Total revenue	10,111,815	15,086,233
Expenditures		
Farmland preservation		
Appraisals	132,250	150,300
Options and negotiations	60,250	73,250
Mapping	-	1,600
Survey fees	-	5,470
	<hr/>	<hr/>
Total farmland preservation expenditures	192,500	230,620
Young farmers		
Grant expense	481,145	1,187,946
Appraisals	19,050	-
Legal fees	11,185	30,052
Mapping	7,631	8,325
	<hr/>	<hr/>
Total young farmers expenditures	519,011	1,226,323
Administrative		
Contracts	30,835	35,355
Equipment/fleet rental	8,618	8,867
Legal fees	76,523	75,875
Mapping	201,954	206,033
Public/legal notice	-	2,942
Accounting and auditing	25,902	59,859
Office expenditures	8,960	5,129
Salaries and related expenditures	105,536	102,092
	<hr/>	<hr/>
Total administrative expenditures	458,328	496,152
Capital outlays		
Equipment	3,348	6,615
Easements and development rights	1,175,833	13,655,651
	<hr/>	<hr/>
Total capital outlays	1,179,181	13,662,266
	<hr/>	<hr/>
Total expenditures	2,349,020	15,615,361
Net change in fund balance	7,762,795	(529,128)
Fund balance - beginning of year	<hr/>	<hr/>
	2,032,856	2,561,984
Fund balance - end of year	<hr/>	<hr/>
	\$ 9,795,651	\$ 2,032,856

See accompanying notes to the financial statements.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Reconciliation of Statements of Revenues, Expenditures and
Changes in Fund Balances to Statements of Activities
June 30, 2013 and 2012**

	2013	2012
Net change in fund balances	\$ 7,762,795	\$ (529,128)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	1,179,181	13,662,266
Depreciation	(5,502)	(7,597)
Total	1,173,679	13,654,669

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	2,047	(165)
Change in net position – governmental activities	\$ 8,938,521	\$ 13,125,376

See accompanying notes to the financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements
June 30, 2013 and 2012

Note A – Nature of Activities and Summary of Significant Accounting Policies

1. Nature of Activities

On July 8, 1991, the governor of the State of Delaware (the State) signed House Bill 200 to amend Chapter 9, Title 3, of the Delaware Code.

As specified under **3 Del. C. §903(a) - Delaware Agricultural Lands Preservation Foundation** - “There is hereby established and created a statewide agricultural lands preservation foundation, a body politic and corporate constituting a public instrumentality of the State established and created for the performance of an essential public and governmental function, to be known as the Delaware Agricultural Lands Preservation Foundation. The Foundation shall be comprised of 12 trustees, all of whom shall be resident of and qualified to vote in the State. The President Pro Tem shall appoint 1 member from the Senate and the Speaker of the House shall appoint 1 member from the House of Representatives each of whom shall serve an indefinite term. The Governor shall appoint the remaining 10 Trustees and shall designate 1 Trustee as Chairperson, which Trustee shall serve at the pleasure of the Governor and be confirmed with the advice and consent of the Senate.”

In accordance with the legislation, the State established a comprehensive agricultural lands preservation program to serve the long-term needs of the agricultural community and the citizens of Delaware. It is declared policy of the state to conserve, protect and encourage improvement of agricultural lands within the state for the production of food and other agricultural products useful to the public, which are grown, raised or harvested on lands and in water within the state. The Foundation is directed to provide economic incentives and benefits to agribusiness, purchase development rights from landowners, encourage development in areas where infrastructures exist, and promote the agricultural industry and the concept of preserving viable land for the future.

The enabling statute for the Foundation established a trust fund. Monies for farmland preservation have come from the 21st Century Fund set up by the General Assembly under the control of the Secretary of Finance and released to accounts within the Delaware Department of Agriculture (DDA) under the certification and subsequent control of the Secretary of Agriculture. Federal funds and monies from the capital budget, earmarked for agricultural lands preservation district creation, are also solely the responsibility of the DDA. All accounting of these expenditures is within the state's accounting system, First State Financials (FSF).

For both the Years Ended June 30, 2013 and 2012, the General Assembly of the State provided funding for the Foundation under Senate Bill No. 229 in the amount of \$10,000,000. Administrative costs of the Foundation are included in this funding and were in the amount of \$501,000 and \$498,200 for the Years Ended June 30, 2013 and June 30, 2012. For both fiscal years all of the funds were administered by the state.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements
June 30, 2013 and 2012

Note A – Nature of Activities and Summary of Significant Accounting Policies - Continued

2. Reporting Entity

The Foundation is a discretely presented component unit of the State.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Foundation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Foundation reports on only one fund, which is the special revenue fund.

4. Pooled Cash and Investments.

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

5. Receivables

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

6. Capital Assets

The Foundation defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. If such assets were acquired, they would be reported in the government-wide financial statements and would be recorded at historical cost or estimated historical cost. Donated capital assets would be recorded at estimated fair value at the date of donation. Provisions for depreciation are made over the estimated useful lives of the respective assets (generally five years for equipment) using the straight-line method. Land is recorded at cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note A – Nature of Activities and Summary of Significant Accounting Policies - Continued

7. Fund Balance / Net Position

Beginning with the Year Ended June 30, 2011, the Foundation implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the Foundation itself, using its highest level of decision-making authority (i.e., Board of Trustees). To be reported as committed, amounts cannot be used for any other purpose unless the Foundation takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the Foundation intends to use for a specific purpose. Intent can be expressed by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Furthermore, the net position is restricted based upon enabling legislation.

8. Estimates

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

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Notes to Financial Statements - Continued
June 30, 2013 and 2012**

Note A – Nature of Activities and Summary of Significant Accounting Policies - Continued

9. Compensated Absences

It is the Foundation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of an employee resignation or retirement.

Vacation – Employees are paid for their accumulated annual leave at their current salary, excluding all supplemental and premium pays, upon separation from the state only.

Sick Leave – Employees are paid for accumulated sick leave at their current salary, excluding all supplemental and premium pays, at retirement, upon commencement of long-term disability, or if laid off without prejudice for lack of work at the rate of 1 hour's pay for each 2 hours of sick leave.

10. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Foundation. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other revenues are not properly included among program revenues and are not included in these financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

11. Restatement

The beginning fund balances and net position for the Foundation have been increased by \$138,090 to reflect the remaining spending authority of \$135,313 and net fixed asset additions of \$2,777 as of June 30, 2011 that were not previously included in the Foundation's financial statements.

12. Subsequent Events

The Foundation has evaluated subsequent events through April 23, 2014, which is the date the financial statements were available to be issued.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note B – 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 Foundation does not anticipate losses from these transactions.

Note C – Pooled Cash and Investments

As of June 30, 2013 and 2012, funding available to the Foundation through state sources consisted of \$7,994,510 and \$665,008, respectively, which is a part of the pooled cash and investments controlled by the Office of the State Treasurer.

The funds held by the state investment pool, an internal investment pool, are specifically identified for the Foundation, but the credit risk cannot be categorized for these funds. 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 of one year or less at the time of purchase are stated at cost or amortized cost.

Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized by risk because they are not evidenced by securities that exist in a physical or book-entry form.

The Cash Management Policy Board

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

Investment Guidelines and Management

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

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Notes to Financial Statements - Continued
June 30, 2013 and 2012**

Note C – Pooled Cash and Investments – Continued

Collateralization Requirements

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

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

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

Note D – Rollback Taxes

Under the provisions of House Bills 200 and 630, rollback taxes under the Farmland Assessment Act (FAA) are directed to be paid by New Castle, Kent and Sussex counties to the Foundation. These rollback taxes are incurred whenever land that qualified under the FAA is changed from use for agriculture to some other use. Under the provisions of House Bill 630, a change of use was further defined as changes in zoning, subdivision, building permits or certificate of occupancy status. The tax is computed as the difference between the taxes that would have been paid without farmland assessment and the taxes that were in fact paid under farmland assessment for five years previous to the date of change in use. This sum of money is due and payable to the counties and is then directed by the counties to the school district within which the property lies and to the Foundation.

The Foundation recorded rollback taxes collected by the counties as of June 30 but not remitted to the Foundation until a later date as rollback taxes receivable. The amount of the rollback taxes receivable were \$52,359 and \$14,662 as of June 30, 2013 and 2012, respectively.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note E – Loans Receivable

During the Year Ended June 30, 2012, the Foundation began disbursing loans as part of the Young Farmers program, a program that awards loans to qualified farmers aged 40 or younger in order to promote farming in this age group. The portion of each loan due within a year is considered current.

Based upon the present value of the loan repayment expected to be paid back, the Foundation recognized grant expenses of \$481,145 and \$1,187,946 for the Years Ended June 30, 2013 and 2012, respectively. Loans receivable totaled \$1,781,000 and \$1,384,347 as of June 30, 2013 and June 30, 2012 respectively, of which \$3,437 and \$5,730 were considered current.

Interest income associated with these loans receivable totaled \$42,122 and \$0 during the years ended June 30, 2013 and 2012, respectively.

Loan maturities vary, based on individual agreements. There is no allowance for doubtful loans at June 30, 2013 and 2012, as there were no material delinquent loan balances or loan defaults during the year.

Note F – Accounts Payable

Accounts payable represents consulting/contractual services and legal expenses incurred by the Foundation prior to the end of the fiscal year but not paid until the following fiscal year. Accounts payable were \$26,052 and \$25,490 as of June 30, 2013 and 2012, respectively.

Note G – Capital Assets

Capital assets activity was as follows for the Years Ended June 30, 2013 and June 30, 2012:

	2013			
	Beginning balances	Increases	Decreases	Ending balances
Land	\$ 208,768,264	\$ 1,175,833	\$ -	\$ 209,944,097
Equipment	103,222	3,348	-	106,570
Less: accumulated depreciation	(91,823)	(5,502)	-	(97,325)
Equipment – net	11,399	(2,154)	-	9,245
Total	<u>\$ 208,779,663</u>	<u>\$ 1,173,679</u>	<u>\$ -</u>	<u>\$ 209,953,342</u>

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Notes to Financial Statements - Continued
June 30, 2013 and 2012**

Note G – Capital Assets - Continued

	2012			
	Beginning balances	Increases	Decreases	Ending balances
Land	\$ 195,112,612	\$ 13,655,652	\$ -	\$ 208,768,264
Equipment	96,607	6,615	-	103,222
Less: accumulated depreciation	(84,226)	(7,597)	-	(91,823)
Equipment - net	12,381	(982)	-	11,399
Total	<u>\$ 195,124,993</u>	<u>\$ 13,654,670</u>	<u>\$ -</u>	<u>\$ 208,779,663</u>

Note H – Pension Plan

Foundation employees are considered State employees and are covered under the State Employees' Pension Plan. For the Years Ended June 30, 2013 and June 30, 2012, the State contributed 20.28 and 18.76 percent, respectively, of the State's share of employees' salary. Total pension cost of \$13,428 and \$13,114 is included in the financial statements in salaries and related expenses for the Years Ended June 30, 2013 and June 30, 2012, respectively.

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 single employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

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

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note H – Pension Plan - Continued

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

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

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

Retirement - Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

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

Disability Benefits - Same as Service Benefits. Employee must have five (5) years of credited service. In lieu of disability pension benefits, over 90% of the members of this Plan opted into a disability insurance program offered by the State effective January 1, 2006.

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

Contributions - Employer - 3% of earnings in excess of \$6,000. For Post-2011 employees, 5% of earnings in excess of \$6,000.

Death Benefit - \$7,000 per member.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2013 and 2012

Note H – Pension Plan - Continued

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.

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

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Budgetary Comparison Schedule – Contractual Fund
Budget to Actual***

Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual amounts</u>	Variance with budget positive (negative)
Revenues			
State aid	\$ 9,779,800	\$ 9,779,800	\$ -
Rollback taxes	-	53,768	53,768
License plate income	-	4,655	4,655
Interest income	-	42,892	42,892
Other income	<u>-</u>	<u>10,500</u>	<u>10,500</u>
 Total revenues	 9,779,800	 9,891,615	 111,815
Expenditures			
Farmland preservation	6,499,000	1,368,333	5,130,667
Young farmers	3,000,000	519,011	2,480,989
Mapping	186,400	201,954	(15,554)
Legal fees	<u>94,400</u>	<u>76,523</u>	<u>17,877</u>
 Total expenditures	 <u>9,779,800</u>	 <u>2,165,821</u>	 <u>7,613,979</u>
 Net change in fund balance	 \$ <u><u>-</u></u>	 7,725,794	 \$ <u><u>7,725,794</u></u>
 Fund balance – beginning of year		 <u>1,939,432</u>	
Fund balance – end of year		\$ <u><u>9,665,226</u></u>	

*The Foundation's budget is presented on the modified accrual basis of accounting.

The accompanying note to this schedule is an integral part of this required supplementary information.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Budgetary Comparison Schedule – Operating Fund
Budget to Actual***

Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual amounts</u>	Variance with budget positive (negative)
Revenues			
State aid	\$ <u>220,200</u>	\$ <u>220,200</u>	\$ _____ -
Total revenues	220,200	220,200	-
Expenditures			
Personnel	99,900	105,536	(5,636)
Accounting and auditing	40,000	25,902	14,098
Auto rental	9,100	8,618	482
Capital	10,000	3,348	6,652
Contractual (general)	15,000	7,337	7,663
Contractual clerical assistance	35,000	26,305	8,695
Insurance	5,700	4,530	1,170
Supplies	2,000	515	1,485
Telephone	1,500	1,108	392
Travel	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total expenditures	<u>220,200</u>	<u>183,199</u>	<u>37,001</u>
Net change in fund balance	\$ _____ -	37,001	\$ <u>37,001</u>
Fund balance – beginning of year		<u>93,424</u>	
Fund balance – end of year		\$ <u>130,425</u>	

*The Foundation's budget is presented on the modified accrual basis of accounting.

The accompanying note to this schedule is an integral part of this required supplementary information.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

**Note to the Required Supplementary Information
Budgetary Reporting
June 30, 2013**

Note A – Budgetary Basis vs Generally Accepted Accounting Principles (GAAP)

The budgetary comparison schedules on the previous two pages provide a comparison of the original and final budgets with actual data on a budgetary basis.

The contractual fund budget consists of \$6,799,800 in funds appropriated by the State to be used for the preservation of agricultural lands within the State and \$3,000,000 in funds appropriated by the State to be used to provide loans to farmers aged of 40 or younger seeking to acquire their own farms.

The operating fund budget consists of \$220,200 in funds appropriated by the State to be used for administrative purposes, such as personnel costs.

Because the funds are used for different purposes, the Foundation creates two separate budgets. Together, the budgets encompass the \$10,000,000 in State funds received during fiscal year 2013 and are included in the special revenue fund in the financial statements.

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

To the Management
Delaware Agricultural Lands Preservation Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Agricultural Lands Preservation Foundation (the Foundation) of the State of Delaware, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated April 23, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a misstatement of the Foundation's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2013-01 and 2013-02 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2013-03 to be a significant deficiency.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

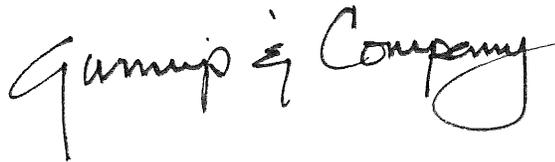
As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as finding 2013-3.

Foundation's Responses to the Findings

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Foundation's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Gunnip & Company". The signature is written in black ink and is positioned in the lower right area of the page.

April 23, 2014

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

Schedule of Findings and Responses

Current Year Findings

Finding 2013 and 2012-01¹: Lack of Controls over Financial Reporting

Condition:

During the year, the Foundation records its transactions on the cash basis of accounting using First State Financials (FSF), the State of Delaware's accounting system. In addition, a subset of the FSF accounts have been incorporated into Quickbooks for both internal and external reporting purposes. In connection with our audit, we noted that a formal and periodic reconciliation was not being performed between the amounts in FSF, Quickbooks and financial statements. Accordingly, we noted inconsistencies in the FSF amounts that were being recorded in Quickbooks and subsequently incorporated into the Foundation's financial statements.

Criteria:

The Foundation should develop a rationale and methodology to ensure all FSF amounts have been properly incorporated into Fund's financial statements either through Quickbooks or another program or tool. As part of that methodology, the Foundation should ensure all amounts are reconciled on a monthly basis and reviewed by a supervisor.

Cause:

The Foundation had not developed a rationale for determining the FSF amounts that should be included in Quickbooks and then subsequently incorporated into Foundation's financial statements.

Effect:

The Foundation could not readily reconcile its financial statements to its accounting records maintained in FSF and while Quickbooks was used for some accounts it was not utilized for all the FSF or financial statement accounts. Accordingly, it took additional time and effort to ensure all FSF amounts had been properly recognized in the Foundation's financial statements.

Recommendation:

We recommend that the Foundation document its rationale for utilizing Quickbooks and compiling the Foundation's financial statements. Based on this rationale, the Foundation should then institute a reconciliation process to ensure all the FSF and Quickbooks have been reconciled and approved on a monthly basis. This reconciliation and approval process should then extend to the financial statements on an annual basis.

Management's Response:

All future transactions in FSF related to Foundation activities will be recorded in Quickbooks, the two sets of data will be reconciled every month by the Foundation's bookkeeper, and the Foundation's manager will review the reconciliation

¹ The last audit report issued for the Foundation was for Fiscal Year ending June 30, 2011. This report encompasses the audits of both Fiscal Years 2012 and 2013, and therefore, the findings cover both years of audit.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

Schedule of Findings and Responses - Continued

Finding 2013 and 2012-02²: Weakness in Financial Statement Preparation

Condition:

In connection with our review of the Foundation financial statements, we noted that while the Foundation compiled the 2013 and 2012 report based upon the previously issued 2011 report that certain current year transactions and corresponding disclosures were not properly addressed or were omitted from the more recent financial statements. In addition, the Foundation has not established a review process to ensure any such new financial transactions or arrangements are properly vetted and addressed, such as the Young Farmers program. The financial statements also need to be reviewed by other Foundation personnel before being provided to the auditor.

Criteria:

The Foundation should be able to produce financial statements that are accurate and complete, with proper presentation and disclosure.

Cause:

The Foundation does not have the necessary expertise and/or secondary review to ensure all transactions have been properly addressed and disclosed in the Foundation's financial statements.

Effect:

The financial statements could omit material transactions or disclosures of the Foundation.

Recommendation:

We recommend that the Foundation either consider having a third party compile the annual financial statements or at the least, have a third party independently review the financial statements prepared by the Foundation prior to providing them to the auditor. In addition, the Foundation should develop a process internally or externally so that new or more complex transactions can be reviewed and addressed as they occur.

Management's Response:

The Foundation will work to secure a third party to compile the annual financial statements, as suggested, as there is no one available within the Department of Agriculture to serve as a third party, independent reviewer.

²The last audit report issued for the Foundation was for Fiscal Year ending June 30, 2011. This report encompasses the audits of both Fiscal Years 2012 and 2013, and therefore, the findings cover both years of audit.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Schedule of Findings and Responses - Continued

Finding 2013 and 2012-03³: Verification of the Young Farmers Program Requirements

Condition:

During the year ended June 30, 2012, the Foundation began the Young Farmers program which was legislated under State Senate Bill No. 117. In connection with this program, eligible farmers are provided loans and support and, in turn, the Foundation receives the easements for the farmland being financed. As part of our testwork over this new program, we selected fourteen loans totaling approximately \$3,500,000. For all the loans selected, we noted that while the applicant signed the application indicating they met certain required criteria, there was no additional verification performed by the Foundation to ensure such information was accurate. Such criteria was as follows:

- The applicant has at least three (3) years of farming experience.
- The applicant has a net worth of no more than \$300,000.
- The applicant does not own (or have ownership interest in) more than twice the tillable acres subject to purchase with Program funds.

In addition, for one of the fourteen loans reviewed, we noted there was no proof the applicant was aged 40 or younger or was a citizen of the State, which is typically supported by a birth certificate and driver's license.

Criteria:

Applicants of the Young Farmers program are required to complete an application and certify that they meet the following compliance requirements specified in State Senate Bill No. 117.

Cause:

This is a new program and the controls still need to be further enhanced to verify some of the information contained on the applications.

Effect:

The Foundation is relying completely on the signed application for compliance with some of the Program's requirements.

Recommendation:

We recommend that the Foundation implement further policies and procedures to incorporate a verification process and further ensure all State requirements for the Young Farmers program are properly substantiated. In addition, the Foundation should ensure that the necessary information is contained in the file for the applicant whose file was missing a birth certificate and driver's license.

³ The last audit report issued for the Foundation was for Fiscal Year ending June 30, 2011. This report encompasses the audits of both Fiscal Years 2012 and 2013, and therefore, the findings cover both years of audit.

**State of Delaware
Delaware Agricultural Lands Preservation Foundation**

Schedule of Findings and Responses - Continued

Finding 2013 and 2012-03 - Continued

Management's Response:

The Foundation agrees with the need to verify that applicants meet the qualifying criteria. We will now require loan applicants to submit a balance sheet to verify their net worth and the balance sheet will also include any property they already own. We will also work with their primary lender to confirm their net worth. Furthermore, applicants will also submit references who can verify their agricultural experience.

The Foundation also notes that staff reviewed each of the loan applications and spoke with the applicants regarding the qualifying criteria to help ensure these criteria were met. Additionally, many of our loan applicants also submit a prequalification application prior to their loan application. Potential applicants also indicate their age, experience, and net worth on this document and this is another opportunity for staff to discuss/review their qualifying criteria. Nonetheless, we agree that further verification of the applicants' qualifying information is warranted and we will proceed as described above.

Regarding the application that was missing the age and citizen documentation, we reviewed our file and a copy of his Delaware driver's license is presently included in the file.

Prior Year Finding:

2011-01: Controls over Financial Reporting

See Finding 2013 and 2012-01 above.