

Gunnip & company LLP

Certified Public Accountants and Consultants

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

**Financial Statements
And Supplemental Information
Years Ended June 30, 2014 and 2013**

Report Issued: February 6, 2015

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Independent Auditor's Report

To the Management
Delaware Department of Agriculture
Delaware Agricultural Lands Preservation Foundation
State of Delaware

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, 2014 and 2013, 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 position of the Foundation as of June 30, 2014 and 2013, and the respective changes in financial position 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 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 December 4, 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.



December 4, 2014

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

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, 2014 and June 30, 2013.

Financial Highlights.

For the Year Ended June 30, 2014 (Fiscal Year 2014), the Foundation's assets increased by \$8,319,536, to \$228,100,747 from \$219,781,211. For the Year Ended June 30, 2013 (Fiscal Year 2013), the Foundation's assets increased by \$8,937,531, to \$219,781,211 from \$210,843,680.

For the Year Ended June 30, 2014, the Foundation's net position increased by \$8,322,723, to \$228,064,921 from \$219,742,198. 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.

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, 2014 and 2013 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.

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

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.

Entity-Wide Financial Analysis

A comparative net position analysis of the Year Ended June 30, 2014 and the Year Ended June 30, 2013 follows:

Assets	Net Position	
	2014	Governmental Activities 2013
Current assets		
Pooled cash and investments	\$ 6,083,944	\$ 7,994,510
Loans receivable - current	9,319	3,437
Rollback taxes receivable	63,691	52,359
Total current assets	6,156,954	8,050,306
Noncurrent assets		
Capital assets, net of depreciation	218,837,325	209,953,342
Loans receivable, less current portion	3,106,468	1,777,563
Total noncurrent assets	221,943,793	211,730,905
Total assets	\$ 228,100,747	\$ 219,781,211
Liabilities		
Current liabilities		
Accounts payable	\$ 25,593	\$ 26,052
Accrued salaries and related costs	2,762	6,166
Total current liabilities	28,355	32,218
Long-term liabilities		
Compensated absences	7,471	6,795
Total liabilities	35,826	39,013
Net position		
Invested in capital assets	218,837,325	209,953,342
Restricted	9,227,596	9,788,856
Total net position	228,064,921	219,742,198
Total liabilities and net position	\$ 228,100,747	\$ 219,781,211

State of Delaware
Delaware Agricultural Lands Preservation Fund

Management's Discussion and Analysis
June 30, 2014 and 2013

Entity-Wide Financial Analysis - Continued

At the close of the Year Ended June 30, 2014, the Foundation's assets exceeded its liabilities by \$228,064,921. At the close of the Year Ended June 30, 2013, the Foundation's assets exceeded its liabilities by \$219,742,198. 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, 2014 capital assets, net of depreciation, increased by \$8,883,983 to \$218,837,325 from \$209,953,342, while in the Year Ended June 30, 2013, capital assets, net of depreciation, increased by \$1,173,679 to \$209,953,342 from \$208,779,663. For the Year Ended June 30, 2013, fewer farmland easements were purchased as a result of the timing of the buying rounds for purchasing easements, not due to lack of public interest in the program. For the Year Ended June 30, 2014, the number of easements purchased increased as a result of the buying cycle returning to its usual schedule.

For the Year Ended June 30, 2014, pooled cash and investments decreased by \$1,910,566 to \$6,083,944 from \$7,994,510 while for the Year Ended June 30, 2013, pooled cash and investments increased by \$7,329,502 to \$7,994,510 from \$665,008. Due to 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. For the Year Ended June 30 2014, the farmland easement purchases increased to a volume more characteristic of previous years, resulting in a reduction of pooled cash and investments from the Year Ended June 30, 2013.

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 \$1,324,105 during the Year Ended June 30, 2014, an increase of \$842,960 from the grant expense of \$481,145 recognized during the preceding year of the program. The increase is attributable to more farmers applying and qualifying for loans in the Year Ended June 30, 2014. Loan collections totaled \$15,913 and \$5,730 during the Years Ended June 30, 2014 and June 30, 2013, respectively.

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues		
General revenues		
Earnings on pooled cash and investments	\$ 921	\$ 770
Charges to county governments	597,147	-
Rollback taxes	63,882	53,768
License plate income	5,285	4,655
Miscellaneous income	12,975	10,500
Program revenues		
Operating grants and contributions	4,800,000	7,000,000
Capital grants and contributions	3,675,995	-
Young farmers	1,257,464	3,042,122
Total revenues	10,413,669	10,111,815
Expenses		
Farmland preservation	(303,236)	(192,500)
Young farmers	(1,344,833)	(519,011)
Administrative services:		
Operating services	(123,627)	(179,851)
Contractual services	(314,509)	(278,477)
Compensated absences	(676)	2,047
Depreciation expense	(4,065)	(5,502)
Total expenses	(2,090,946)	(1,173,294)
Change in net position	\$ 8,322,723	\$ 8,938,521

Governmental Activities

Earnings on pooled cash and investments increased to \$921 for the Year Ended June 30, 2014 from \$770 for the Year Ended June 30, 2013.

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
June 30, 2014 and 2013

Governmental Activities - Continued

For the Year Ended June 30, 2014, the Foundation received \$597,147 in county reimbursements for easements purchased in Round 17. 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.

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 7.5% paid to the county in which the property is located. Rollback tax revenue increased to \$63,882 for the Year Ended June 30, 2014 from \$53,768 for the Year Ended June 30, 2013. The increase in this source of revenue indicates that more farmland was used for development in the Year Ended June 30, 2014 than was the case in the Year Ended June 30, 2013.

License plate income increased to \$5,285 for the Year Ended June 30, 2014 from \$4,655 for the Year Ended June 30, 2013.

Operating grants and contributions represent funding from the State. For the Year Ended June 30, 2014, the Foundation received \$6,000,000 in grant funding from the State of Delaware, with \$4,297,400 and \$502,600 appropriated to farmland preservation and its corresponding administrative services, respectively, and \$1,200,000 appropriated to the Young Farmers program.

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.

Capital grants and contributions, farmland preservation represents funding from the Federal Government. The Foundation received \$3,675,995 in federal funds during the Year Ended June 30, 2014. 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 that fiscal year.

While overall expenses for administrative services were fairly consistent for the Years Ended June 30, 2014 and June 30, 2013, farmland preservation expenses increased \$110,736 to \$303,236 for the Year Ended June 30, 2014 from \$192,500 for the Year Ended June 30, 2013 due to fiscal year 2013 falling between easement purchasing rounds. Young Farmers expenses increased \$825,822 to \$1,344,833 for the Year Ended June 30, 2014 from \$519,011 for the Year Ended June 30, 2013 as more expenses were incurred as more loans were disbursed in Fiscal Year 2014.

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

Governmental Funds

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

	<u>2014</u>	<u>2013</u>
Revenues		
State appropriation	\$ 4,800,000	\$ 7,000,000
Federal grant	3,675,995	-
Young farmers	1,257,464	3,042,122
Charges to county governments	597,147	-
Rollback taxes	63,882	53,768
License plate income	5,285	4,655
Earnings on pooled cash and investments	921	770
Other income	12,975	10,500
Total revenues	<u>10,413,669</u>	<u>10,111,815</u>
Expenditures		
Farmland preservation	303,236	192,500
Administrative services:		
Operating services	123,627	179,851
Contractual services	314,509	278,477
Young farmers	1,344,833	519,011
Capital outlays:		
Equipment	-	3,348
Property	8,888,048	1,175,833
Total expenditures	<u>10,974,253</u>	<u>2,349,020</u>
Net change in fund balances	(560,584)	7,762,795
Fund balances - beginning of year	<u>9,795,651</u>	<u>2,032,856</u>
Fund balances - end of year	<u>\$ 9,235,067</u>	<u>\$ 9,795,651</u>

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

Governmental Funds - Continued

Overall, for the Special Revenue Fund, expenses exceeded revenues in fiscal year 2014, resulting in a \$560,584 decrease in fund balances and revenues exceeded expenses in fiscal year 2013, resulting in a \$7,762,795 increase in fund balances. The primary reason for the change between the fiscal years is because the Foundation incurred more capital outlays for farmland easement purchases for the Year Ended June 30, 2014, 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, 2014 and 2013

	Governmental Activities	
	2014	2013
Assets		
Current assets		
Pooled cash and investments	\$ 6,083,944	\$ 7,994,510
Loans receivable - current	9,319	3,437
Rollback taxes receivable	63,691	52,359
Total current assets	<u>6,156,954</u>	<u>8,050,306</u>
Noncurrent assets		
Capital assets - net of depreciation	218,837,325	209,953,342
Loans receivable, less current portion	3,106,468	1,777,563
Total noncurrent assets	<u>221,943,793</u>	<u>211,730,905</u>
Total assets	<u>\$ 228,100,747</u>	<u>\$ 219,781,211</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 25,593	\$ 26,052
Accrued salaries and related costs	2,762	6,166
Total current liabilities	<u>28,355</u>	<u>32,218</u>
Long-term liabilities		
Compensated absences	<u>7,471</u>	<u>6,795</u>
Total liabilities	<u>35,826</u>	<u>39,013</u>
Net position		
Invested in capital assets	218,837,325	209,953,342
Restricted by enabling legislation	<u>9,227,596</u>	<u>9,788,856</u>
Total net position	<u>228,064,921</u>	<u>219,742,198</u>
Total liabilities and net position	<u>\$ 228,100,747</u>	<u>\$ 219,781,211</u>

The accompanying notes to the basic financial statements are an integral part of these financial statements.

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

**Statement of Activities
For the Fiscal Year Ended June 30, 2014**

	Expenses	Charges for services	Program revenue Operating grants and contributions	Capital grants and contributions	Net revenue and change in net assets Total
Governmental activities:					
Farmland preservation	\$ (303,236)	\$ -	\$ 4,297,400	\$ 3,675,995	\$ 7,670,159
Young farmers program	(1,344,833)	-	-	1,257,464	(87,369)
Administrative services:					
Operating services	(124,303)	-	207,600	-	83,297
Contractual services	(314,509)	-	295,000	-	(19,509)
Depreciation expense	(4,065)	-	-	-	(4,065)
Total governmental activities	\$ (2,090,946)	\$ -	\$ 4,800,000	\$ 4,933,459	7,642,513
			General revenues:		
			Earnings on pooled cash and investments		921
			Charges to county governments		597,147
			Rollback taxes		63,882
			Plates income		5,285
			Wilson farm lease income		12,975
			Total general revenues		680,210
			Change in net position		8,322,723
			Net position - beginning of year		219,742,198
			Net position - end of year		\$ 228,064,921

The accompanying notes to the basic financial statements are an integral part of these financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

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

	<u>Expenses</u>	<u>Charges for services</u>	<u>Program revenue</u>		<u>Net revenue and change in net assets</u>
			<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Total</u>
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	<u>\$ (1,173,294)</u>	<u>\$ -</u>	<u>\$ 7,000,000</u>	<u>\$ 3,042,122</u>	<u>8,868,828</u>
			General revenues:		
					770
					53,768
					4,655
					10,500
					<u>69,693</u>
					8,938,521
					<u>210,803,677</u>
					<u>\$ 219,742,198</u>

The accompanying notes to the basic financial statements are an integral part of these financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Balance Sheets
June 30, 2014 and 2013

	<u>Special Revenue Fund</u>	
	<u>2014</u>	<u>2013</u>
Assets		
Pooled cash and investments	\$ 6,083,944	\$ 7,994,510
Loans receivable	9,319	3,437
Rollback taxes receivable	<u>63,691</u>	<u>52,359</u>
Total current assets	6,156,954	8,050,306
Noncurrent assets		
Long-term loans receivable	<u>3,106,468</u>	<u>1,777,563</u>
Total assets	<u>\$ 9,263,422</u>	<u>\$ 9,827,869</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 25,593	\$ 26,052
Accrued salaries and related costs	<u>2,762</u>	<u>6,166</u>
Total liabilities	28,355	32,218
Fund balance		
Restricted by enabling legislation	<u>9,235,067</u>	<u>9,795,651</u>
Total liabilities and fund balance	<u>\$ 9,263,422</u>	<u>\$ 9,827,869</u>

The accompanying notes to the basic financial statements are an integral part of these financial statements.

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

**Reconciliation of Balance Sheets to Statements of Net Position
June 30, 2014 and 2013**

	2014	2013
Total fund balances	\$ 9,235,067	\$ 9,795,651
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
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 position.	218,837,325	209,953,342
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	(7,471)	(6,795)
Total net position – governmental activities	\$ 228,064,921	\$ 219,742,198

The accompanying notes to the basic financial statements are an integral part of these financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2014 and 2013

	Special Revenue Fund	
	2014	2013
Revenues		
Farmland preservation	\$ 4,800,000	\$ 7,000,000
Federal grant	3,675,995	-
Young Farmers grant	1,257,464	3,042,122
County reimbursements	597,147	-
Rollback taxes	63,882	53,768
License plate income	5,285	4,655
Interest income	921	770
Wilson farm lease income	12,975	10,500
Total revenues	<u>10,413,669</u>	<u>10,111,815</u>
Expenditures		
Farmland preservation:		
Appraisals	243,400	132,250
Options and negotiations	55,500	60,250
Survey fees	4,336	-
Total farmland preservation expenditures	<u>303,236</u>	<u>192,500</u>
Young farmers:		
Contribution expense	1,324,105	481,145
Appraisals	5,350	19,050
Legal fees	12,628	11,185
Mapping	2,750	7,631
Total young farmers expenditures	<u>1,344,833</u>	<u>519,011</u>
Administrative:		
Contracts	7,101	30,835
Equipment/fleet rental	9,337	8,618
Legal fees	121,330	76,523
Mapping	193,179	201,954
Accounting and auditing	24,380	25,902
Office expense	9,156	8,960
Salaries and related expenditures	73,653	105,536
Total administrative expenditures	<u>438,136</u>	<u>458,328</u>
Capital outlay:		
Equipment	-	3,348
Easements and development rights	8,888,048	1,175,833
Total capital outlay	<u>8,888,048</u>	<u>1,179,181</u>
Total expenditures	<u>10,974,253</u>	<u>2,349,020</u>
Net change in fund balance	(560,584)	7,762,795
Fund balance - beginning of year	<u>9,795,651</u>	<u>2,032,856</u>
Fund balance - end of year	<u>\$ 9,235,067</u>	<u>\$ 9,795,651</u>

The accompanying notes to the basic financial statements are an integral part of these 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
Years Ended June 30, 2014 and 2013**

	2014	2013
Net change in fund balances		
Farmland preservation, young farmers and administrative activities	\$ (560,584)	\$ 7,762,795

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	8,888,048	1,179,181
Depreciation	(4,065)	(5,502)
Total	8,883,983	1,173,679

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	(676)	2,047
Change in net position – governmental activities	\$ 8,322,723	\$ 8,938,521

The accompanying notes to the basic financial statements are an integral part of these financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Fund

Notes to Financial Statements
June 30, 2014 and 2013

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 agribusinesses, 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 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 the Years Ended June 30, 2014 and 2013, the General Assembly of the State provided funding for the Foundation under Senate Bill No. 229 in the amount of \$6,000,000 and \$10,000,000, respectively. Administrative costs of the Foundation are included in this funding and were in the amount of \$502,600 and \$501,000 for the Years Ended June 30, 2014 and June 30, 2013. For both fiscal years all of the funds were administered by the State.

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

**Notes to Financial Statements - Continued
June 30, 2014 and 2013**

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

2. Reporting Entity

The Foundation is a discretely presented component 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. Easements and development rights are 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 Fund**

**Notes to Financial Statements - Continued
June 30, 2014 and 2013**

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

7. Fund Balances/Net Position

The following fund balances/net position classifications describe the relative strength of spending constraints:

Non-spendable fund balance – amounts that are in non-spendable 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 expense during the reporting period. Actual results could differ from those estimates.

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

**Notes to Financial Statements - Continued
June 30, 2014 and 2013**

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 position 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 government funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

11. Subsequent Events

The Foundation has evaluated all events and transactions through the date the financial statements were available to be issued.

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.

State of Delaware
Delaware Agricultural Lands Preservation Fund

Notes to Financial Statements - Continued
June 30, 2014 and 2013

Note C - Pooled Cash and Investments

As of June 30, 2014 and 2013, funding available to the Foundation through State sources consisted of \$6,083,944 and \$7,994,510, 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 the 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.

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 than "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.

State of Delaware
Delaware Agricultural Lands Preservation Fund

Notes to Financial Statements - Continued
June 30, 2014 and 2013

Note C - Pooled Cash and Investments - Continued

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

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

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

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

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 \$63,691 and \$52,359 as of June 30, 2014 and 2013, respectively.

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

**Notes to Financial Statements - Continued
June 30, 2014 and 2013**

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 contribution expense of \$1,324,105 and \$481,145 for the Years Ended June 30, 2014 and 2013, respectively. Loans receivable totaled \$3,115,787 and \$1,781,000 as of June 30, 2014 and June 30, 2013, respectively, of which \$9,319 and \$3,437 were considered current.

Interest income associated with these loans receivable totaled \$57,464 and \$42,122 during the Years Ended June 30, 2014 and 2013, respectively.

Loan maturities vary, based on individual agreements. There is no allowance for doubtful loans at June 30, 2014 and 2013, 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 \$25,593 and \$26,052 as of June 30, 2014 and 2013, respectively.

Note G - Capital Assets

Capital assets activity was as follows for the Years Ended June 30, 2014 and June 30, 2013:

	2014			
	Beginning balances	Increases	Decreases	Ending balances
Easement and development rights	\$ 209,944,097	\$ 8,888,048	\$ -	\$ 218,832,145
Equipment	106,570	-	-	106,570
Less: accumulated depreciation	(97,325)	(4,065)	-	(101,390)
Equipment - net	9,245	(4,065)	-	5,180
Total	\$ 209,953,342	\$ 8,883,983	\$ -	\$ 218,837,325

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

**Notes to Financial Statements - Continued
June 30, 2014 and 2013**

Note G - Capital Assets - Continued

	2013			Ending balances
	Beginning balances	Increases	Decreases	
Easement and development rights	\$ 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	\$ 208,779,663	\$ 1,173,679	\$ -	\$ 209,953,342

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, 2014 and June 30, 2013, the State contributed 21.02% and 20.28%, respectively, of the State's share of employees' salary. Total pension cost of \$10,455 and \$13,428 is included in the financial statements in salaries and related expenses for the Years Ended June 30, 2014 and June 30, 2013, 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 Fund**

**Notes to Financial Statements - Continued
June 30, 2014 and 2013**

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. Employees 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 Fund

Notes to Financial Statements - Continued
June 30, 2014 and 2013

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 non-vested 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, 2014**

	<u>Budget</u>	<u>Actual amounts</u>	<u>Variance with budget positive (negative)</u>
Revenues			
State aid	\$5,792,400	\$ 5,792,400	\$ -
Federal aid	-	3,675,995	3,675,995
County reimbursements	-	597,147	597,147
Rollback taxes	-	63,882	63,882
License plate income	-	5,285	5,285
Interest income	-	58,385	58,385
Other income	-	12,975	12,975
Total revenues	<u>5,792,400</u>	<u>10,206,069</u>	<u>4,413,669</u>
Expenditures			
Farmland preservation	4,297,400	9,191,284	(4,893,884)
Young farmers	1,200,000	1,344,833	(144,833)
Mapping	200,000	193,179	6,821
Legal fees	95,000	121,330	(26,330)
Total expenditures	<u>5,792,400</u>	<u>10,850,626</u>	<u>(5,058,226)</u>
Net change in fund balance	<u>\$ -</u>	<u>(644,557)</u>	<u>\$ (644,557)</u>
Fund balance - beginning of year		<u>9,665,226</u>	
Fund balance - end of year		<u>\$ 9,020,669</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, 2014**

	<u>Budget</u>	<u>Actual amounts</u>	<u>Variance with budget positive (negative)</u>
Revenues			
State aid	<u>\$ 207,600</u>	<u>\$ 207,600</u>	<u>\$ -</u>
Expenditures			
Personnel	107,300	73,653	33,647
Accounting and auditing	30,000	24,380	5,620
Auto rental	9,000	8,618	382
Capital	10,000	-	10,000
Contractual (general)	38,300	8,049	30,251
Contractual clerical assistance	2,500	2,325	175
Insurance	5,000	4,531	469
Supplies	2,000	1,097	903
Telephone	1,500	974	526
Travel	2,000	-	2,000
Total expenditures	<u>207,600</u>	<u>123,627</u>	<u>83,973</u>
Net change in fund balance	<u>\$ -</u>	83,973	<u>\$ 83,973</u>
Fund balance - beginning of year		<u>130,425</u>	
Fund balance - end of year		<u>\$ 214,398</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 Fund**

**Note to the Required Supplementary Information
Budgetary Reporting
June 30, 2014**

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 \$4,592,400 in funds appropriated by the State to be used for the preservation of agricultural lands within the State and \$1,200,000 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 \$207,600 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 \$6,000,000 in State funds received during fiscal year 2014 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 Department of Agriculture
Delaware Agricultural Lands Preservation Foundation
State of Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Agricultural Lands Preservation Foundation (the Foundation) of the State of Delaware, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated December 4, 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.

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 deficiencies described in the accompanying schedule of findings and responses as item 2014-01, 2014-02 and 2014-03 to be a significant deficiencies.

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 item 2014-3.

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. 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.



December 4, 2014

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

**Schedule of Findings and Responses
June 30, 2014**

Current Year Findings

Finding 2014-01: Further Controls Needed 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 while the Foundation now performs a formal annual reconciliation between the amounts in FSF and Quickbooks for its operating funds that a more comprehensive reconciliation still needs to incorporate the loans receivable, easements and other balances to ensure all the amounts have been properly disclosed in the financial statements.

Criteria:

The Foundation should continue to 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 been reconciled on a monthly basis and reviewed by a supervisor.

Cause:

The Foundation started to implement a process for reconciling the FSF amounts that should be included in Quickbooks and then subsequently incorporated into Foundation's financial statements; however, Quickbooks presently only includes the Foundation's operating funds. Accordingly, the Foundation should ensure all amounts incorporated in its financial statements have been consistently reconciled back to FSF.

Effect:

The Foundation could not readily reconcile its financial statements to its accounting records maintained in Quickbooks since not all the accounts and balances were maintained in Quickbooks. Accordingly, it requires 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 build upon its reconciliation process to ensure all accounts and balances have been reflected in Quickbooks. This reconciliation process should be completed and approved on a monthly basis and then extend to the financial statements on an annual basis.

State of Delaware
Delaware Agricultural Lands Preservation Fund

Schedule of Findings and Responses - Continued
June 30, 2014

Current Year Findings - Continued

Management's Response:

The Foundation will include all accounts and balances in Quickbooks and the Foundation supervisor (Deputy Secretary) will review the statements on a monthly basis and at year-end.

Finding 2014-02: Further Controls Needed over Financial Statement Preparation

Condition:

In connection with our review of the Foundation financial statements, we noted that the Foundation engaged an accounting firm to assist in the compilation of its financial statements for the fiscal year ended June 30, 2014. While this process has enhanced the Foundation's reporting process, the Foundation still needs to establish a more formal review process to ensure any new financial transactions or arrangements are properly vetted and reviewed.

Criteria:

The Foundation should ensure all financial transactions are accurate and complete based upon secondary review of such calculations and summaries.

Cause:

The Foundation needs to incorporate a secondary review of its financial information to ensure all transactions have been properly addressed and disclosed in the Foundation's financial statements.

Effect:

The financial statements could inadvertently omit or include erroneous transactions that have not been properly reviewed and approved.

Recommendation:

We recommend that the Foundation 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 on a process to review and address new or complex transactions. We will first determine if someone within the Department of Agriculture can fulfill this role or, if that is not possible, we will work with a third party.

State of Delaware
Delaware Agricultural Lands Preservation Fund
Schedule of Findings and Responses - Continued
June 30, 2014

Current Year Findings - Continued

Finding 2014-03: 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.

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:

Since this is a relatively new program, certain controls to verify some of the information contained on the applications were not instituted until fiscal year 2015.

Effect:

For Young Farmers loans originated in fiscal years 2012, 2013 and 2014, the Foundation is relying completely on the signed application for its 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 consider whether further verification is still needed for those Young Farmers loans issued prior to fiscal year 2015.

State of Delaware
Delaware Agricultural Lands Preservation Fund
Schedule of Findings and Responses - Continued
June 30, 2014

Current Year Findings - Continued

Finding 2014-03: Verification of the Young Farmers Program Requirements, Continued

Management's Response:

As noted in the Foundation's FY12 and FY13 response for this issue, the Foundation began requiring loan applicants to submit a balance sheet to verify their net worth and also verify if they own any additional property. Applicants now also must submit at least one reference who can verify their agricultural experience. These processes were implemented at the conclusion of the FY12 and FY13 audit, near the end of FY14. While we understand and agree with the need to verify the qualifying criteria, the Foundation does not believe it is worthwhile to conduct any further verification for the Young Farmer loans issued previously. Foundation staff reviewed each of those loan applications when submitted and reviewed with the applicants the qualifying criteria.

State of Delaware
Delaware Agricultural Lands Preservation Fund
Schedule of Findings and Responses - Continued
June 30, 2014

Status of Prior Year Findings:

<u>Prior Year Finding</u>	<u>Brief Description</u>	<u>Current Year Status</u>
2013-01	Lack of Controls over Financial Reporting	See Finding 2014-01
2013-02	Weakness in Financial Statement Preparation	See Finding 2014-02
2013-03	Verification of the Young Farmers Program Requirements	See Finding 2014-03