Delaware Economic Development Authority

Financial Statements

Year Ended June 30, 2011

Issuance Date: March 18, 2013

Table of Contents

Santora CPA Group
Right, By Your Side

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

Robert Freed, Principal
Linda A. Pappajohn, Principal
Stephen M. Conyers, CPA, Principal
Stacey A. Wynne, CPA, CFE, CICA, Principal

Independent Auditors' Report

We have audited the accompanying balance sheet of the Delaware Economic Development Authority (the Authority), as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 5 to the financial statements, the financial statements include investments of $2,703,623, representing approximately 2.4% of net assets as of June 30, 2011, whose fair values have been estimated by the Authority's management in the absence of readily ascertainable market values. Management's estimates are based on annual Schedule K-1 information provided by each respective private equity firm, or based on cost for other equity investments. These methods may not represent fair market value, in accordance with the *Governmental Accounting Standards Board* (GASB) authoritative guidance, codified in GASB Codification Section I50, *Investments*.

As discussed in Note 3(a) to the financial statements, the financial statements include equity in State Treasurer cash and investment pool of $61,581,875, representing 53.6% of net assets as of June 30, 2011. The value of the Authority's portion of the State Treasurer cash and investment pool has been estimated by Authority management, using remaining spending authority amounts per the State accounting system, First State Financials (FSF). We were unable to satisfy ourselves as to the existence and completeness of this balance.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the records related to the valuation of investments and the equity in the State Treasurer cash and investment pool, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 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.

Newark, Delaware
November 28, 2012

Delaware Economic Development Authority

Management's Discussion and Analysis

Year Ended June 30, 2011

This section of the Delaware Economic Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the financial position and performance during the fiscal year. Please read in conjunction with the Authority's financial statements, which follow this section.

Background

The Authority is a public corporation created pursuant to 29 *Del. C.* 50, and is empowered by the statute to administer economic development programs of the State of Delaware (the State). The Authority is primarily funded by State appropriations for the Delaware Economic Development Office's (DEDO) Strategic Fund, as mandated by the annual bond bill (which authorizes specific capital improvement projects and the use of the proceeds of bonds issued to fund projects) as well as explicitly indicated pass-through funds.

The Authority was established to assist in the mission of DEDO to be responsible for attracting new investors and businesses to the State, for promoting the expansion of existing industry, for assisting small and minority-owned businesses, for promoting and developing tourism, and for creating new and improved employment opportunities for all citizens in Delaware.

Grants

The Authority is empowered to make financial assistance in the form of Strategic Fund grants to qualified applicants. Proceeds of a grant can be used for, but are not limited to, the acquisition of land, buildings, machinery and equipment, the expansion of an existing building, or the renovation of fixed assets and buildings. Proceeds can also be used to augment working capital.

In addition to the Strategic Fund grants, the Authority has established the following specific grant programs:

- **Small Business Innovation Research and Small Business Technology Transfer Transitional Grant Assistance Program**

  In order to encourage Delaware small businesses to participate in the federal Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer (STTR) program, the Authority has set forth criteria to help maintain continuing SBIR/STTR program research and development. The purposes of the program are to (1) stimulate technological innovation; (2) use small business to meet federal research and development needs; (3) encourage the participation by disadvantaged persons in technological innovation; and (4) increase private sector commercialization of program participants.

- **Brownfield Assistance Grants**

  The Authority is empowered to provide financial assistance in the form of matching grants to applicants for the costs of conducting environmental assessments and remediation at Certified Brownfield sites.

Loans

The Authority is empowered to make direct Strategic Fund loans to qualified applicants. Proceeds of a loan can be used for, but are not limited to, the acquisition of land, buildings, machinery and equipment, the expansion of an existing building, or the renovation of fixed assets and buildings. Proceeds can also be used to augment working capital.

In addition to these Strategic Fund loans, the Authority has established the following specific loan programs and incentives:

- **Limited Investment for Financial Traction (LIFT)**

  This loan program allows participating small businesses to defer interest payments on their line of credit for up to a two-year period. The participating bank recommends the small business borrower to DEDO. Once approved, the Authority will begin paying the interest on the existing line of credit for up to two years. After two years expire, the business will have five years to repay the Authority the amount borrowed at zero percent interest (0%). LIFT transactions may not exceed $25,000 per entity.

- **Delaware Access Program**

  The Delaware Access Program (DAP) is designed to give banks a flexible and nonbureaucratic tool to make business loans that are somewhat riskier than a conventional bank loan, in a manner consistent with safety and soundness. It is designed to use a small amount of public resources to generate a large amount of private bank financing, thus providing access to bank financing for many Delaware businesses that might otherwise not be able to obtain such access.

  The DAP is based on a risk-pooling concept. When a bank makes a loan under the program, the borrower pays a one-time premium charge, which is matched by a bank premium payment. The Authority then matches the combined total of the borrower's payment and the bank's payment. The borrower's premium payment is one of the terms of the loan to be determined during the private transaction between the bank and the borrower.

Investments

The Authority is empowered to make both venture capital and equity investments to qualified applicants. Proceeds of the investments can be used for, but are not limited to, financing expenses, working capital, office space, patent filings, or prototyping.

Tax-Exempt Industrial Revenue Bond Financing

The Authority provides statewide financial assistance to new or expanding businesses, governmental units and certain organizations that are exempt from federal income taxation (collectively, assisted persons) by issuing tax-exempt Industrial Revenue Bonds (IRB) and lending the proceeds of such bonds to these assisted persons. IRB bear lower interest rates than comparable taxable bonds, because the interest paid to bondholders is exempt from federal and Delaware income taxes. The Authority is able to pass on this lower interest rate to the assisted persons.

The Authority does not guarantee the payment of principal or interest on the bonds, and the bonds are not backed by the full faith and credit of the State.

Financial Highlights

- Total assets exceeded total liabilities by $114,918,578 (net assets). Net assets of $111,566,255 are unrestricted and may be used to meet the Authority's general operating requirements. Included in the Authority's total net assets are $3,352,323 of funds that have been designated for specific programs.

- Net assets increased by $24,050,949 during fiscal year 2011 primarily from additional State appropriations of $44,011,300, offset by grant expenses of $8,489,110, transfers out to other State agencies of $12,547,040, other net nonoperating expense of $744,867, and a net operating income of $1,820,666. The net operating income primarily represent the Authority's interest earnings from its loans receivable and financing fees, less the Authority's administrative costs of $398,600.

- For the year ended June 30, 2011, the Authority made grants, loans, and equity investments as follows:

    - The Authority's grant payments consisted of the following:

Strategic fund grants	$8,146,610
Clean Energy fund grants	2,500
SBIR/STTR transitional grants	340,000
	$8,489,110

    - The Authority issued the following loans:

Strategic fund loans	$1,293,796
LIFT program	272,992
	$1,566,788

    - The Authority made equity investments of $80,000.

Delaware Economic Development Authority

Management's Discussion and Analysis

Year Ended June 30, 2011

Overview of Financial Statements

The annual financial statements consist of two parts: management's discussion and analysis (this section) and the basic financial statements.

- The Authority's financial statements provide information about the overall financial position and results of operations. These statements, which are presented on an accrual basis, consist of the balance sheet, statement of revenues, expenses, and changes in net assets, and statement of cash flows.

- The basic financial statements also include the notes to the financial statements, which provide additional information and disclosures related to the amounts reported in the financial statements.

Financial Analysis

The table below summarizes the Authority's net asset position as of June 30, 2011:

Assets	
Cash and cash equivalents	$ 62,765,634
Other current assets	934,425
Total current assets	63,700,059
Noncurrent assets	51,870,004
Total assets	$115,570,063
Liabilities	
Current liabilities	$ 209,898
Noncurrent liabilities	441,587
Total liabilities	651,485
Net assets	
Unrestricted	114,918,578
Total net assets	114,918,578
Total liabilities and net assets	$115,570,063

The Authority, by nature of its activities, is primarily comprised of cash and cash equivalents, loans receivable, some investments, and certain liabilities.

Delaware Economic Development Authority

Management's Discussion and Analysis

Year Ended June 30, 2011

Cash and cash equivalents primarily consist of the Authority's allocable portion of the Office of the State Treasurer cash and investment pool and are included in the current assets section of the balance sheet because the Authority may withdraw its allocation at any time without prior notice or penalty. The majority of the remaining assets of the Authority consists of loans provided for new or expanding businesses within Delaware and is included within current or noncurrent assets based upon the terms of the loans. Investments, consisting of both venture capital investments in private equity firms and other equity investments, are included within noncurrent assets.

Cash and cash equivalents increased primarily from the State appropriations of $44,011,300 and interest on its loans receivable of $1,839,377, offset by the Authority's transfers to other State agencies of $12,547,040 and grant payments of $8,279,212.

The Authority's liabilities consist of $441,587 in DAP nonrefundable premiums, which represent premiums paid into the DAP bank accounts by participating banks that the Authority may reclaim if not fully utilized, and $209,898 in grants payable as of June 30, 2011.

Total net assets for the year ended June 30, 2011 increased by $24,050,949. A summary of changes in net assets is included in the table below.

While the Authority is highly liquid as of June 30, 2011, the Authority also has outstanding commitments of $55,565,428, which have been approved by the Council on Development Finance (CDF) and are awaiting disbursement. In addition, another $33,735,126 of commitment offers have been extended, but they have not yet been presented to the CDF for final approval.

The table below summarizes the Authority's revenues, expenses, and changes in net assets during the year ended June 30, 2011:

Delaware Economic Development Authority

Management's Discussion and Analysis

Year Ended June 30, 2011

Operating revenues	
Interest income on notes	$ 1,845,061
Financing fees	81,611
Total operating revenues	1,926,672
Operating expenses	
Salaries and benefits	266,126
General and administrative	132,474
Bad debt recoveries	(292,594)
Total operating expenses	106,006
Operating income	1,820,666
Total nonoperating and transfers, net	22,230,283
Changes in net assets	24,050,949
Net assets – beginning of year	90,867,629
Net assets – end of year	$114,918,578

The change in net assets of $24,050,949 is primarily comprised on nonoperating activities and transfers.

The State's appropriation, less amounts that are transferred out to other State agencies, was $31,464,260 or 68% of the Authority's total revenues for the year ended June 30, 2011. Interest on loans and interest on deposits comprised 4% and 2%, respectively, of overall revenues for the Authority. Operating revenues of $1,926,672 represented only 4% of total revenues for the Authority.

The Authority's grant expenses of $8,489,110 and program payments of $380,695 represented 87% and 4%, respectively, of total expenses for the year ended June 30, 2011. Operating expenses of $106,006 represented only 1% of total expenses for the Authority while the decrease in the value of the Authority's capital venture investments of $703,241 comprised the rest of the reduction in the Authority's net assets.

Delaware Economic Development Authority

Balance Sheet

June 30, 2011

Assets	**2011**
Current assets	
Cash and cash equivalents - unrestricted	
Equity in Office of the State Treasurer cash and investment pool	$ 61,581,875
Other	1,183,759
Current portion of loans receivable, net	924,741
Loan interest receivable	5,684
Fee income receivable	4,000
Total current assets	63,700,059
Noncurrent assets	
Investments	2,703,623
Loans receivable, net of current portion	49,166,381
Total noncurrent assets	51,870,004
Total assets	$ 115,570,063

Liabilities and Net Assets

Current liabilities	
Grants payable	$ 209,898
Total current liabilities	209,898
Noncurrent liabilities	
Delaware Access Program - nonrefundable premiums	441,587
Total noncurrent liabilities	441,587
Total liabilities	651,485
Net assets	
Unrestricted	114,918,578
Total net assets	114,918,578
Total liabilities and net assets	$ 115,570,063

See accompanying notes to financial statements.

Delaware Economic Development Authority

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2011

	2011
Operating revenues	
Interest on loans	$ 1,845,061
Fee income	81,611
Total operating revenues	1,926,672
Operating expenses	
Salaries and benefits	266,126
General and administrative	132,474
Bad debt recoveries	(292,594)
Total operating expenses	106,006
Operating income	1,820,666
Nonoperating revenues (expenses)	
Interest on invested cash and deposits	339,069
Grant expenses	(8,489,110)
Program payments	(380,695)
Net decrease in investments	(703,241)
State appropriations	44,011,300
Excess of nonoperating revenues over nonoperating expenses	34,777,323
Income before transfers	36,597,989
Appropriations transferred to other State agencies	(12,547,040)
Change in net assets	24,050,949
Total net assets – beginning of year	90,867,629
Total net assets – end of year	$ 114,918,578

See accompanying notes to financial statements.

Delaware Economic Development Authority

Statement of Cash Flows

Year Ended June 30, 2011

	2011
Cash flows from operating activities	
Interest from loans	$ 1,839,377
Fee income	79,611
General and administrative expenses paid	(124,592)
Loan repayments	1,577,580
Loan disbursements	(1,566,788)
Net cash provided by operating activities	1,805,188
Cash flows from noncapital financing activities	
Grant expenses	(8,279,212)
State appropriations	44,011,300
Transfers to other State agencies	(12,547,040)
Net cash provided by noncapital financing activities	23,185,048
Cash flows from investing activities	
Program payments from banks	51,617
Program payments to banks	(380,695)
Purchase of investments	(80,000)
Repayment from investments	145,863
Interest received	339,069
Net cash provided by investing activities	75,854
Net increase in cash and cash equivalents	25,066,090
Cash and cash equivalents – beginning of year	37,699,544
Cash and cash equivalents – end of year	$ 62,765,634

See accompanying notes to financial statements.

Delaware Economic Development Authority

Statement of Cash Flows (Continued)

Year Ended June 30, 2011

		2011
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$	1,820,666
Adjustments to reconcile operating income to net cash provided by operating activities		
Bad debt recoveries		(292,594)
Changes in assets and liabilities		
Increase in loan interest receivable		(5,684)
Increase in fee income receivable		(2,000)
Decrease in prepaid expenses		284,800
Net cash provided by operating activities	$	1,805,188

See accompanying notes to financial statements.

Delaware Economic Development Authority

Notes to the Financial Statements

Year Ended June 30, 2011

Note 1 Reporting Entity

The Delaware Economic Development Authority (the Authority) was established by 29 *Del. C.* 50, Subchapter IV to assist the State of Delaware (the State), the Delaware Economic Development Office (DEDO), and its citizens in matters such as stable employment, protection of public health and welfare, and the construction, acquisition, rehabilitation, modernization, and renovation of facilities related to industrial, commercial, and agricultural businesses. Furthermore, the Authority is tasked with encouraging the development of the State as a banking and financial center and assisting in the financing of facilities and activities of exempt persons in order to contribute to the prosperity, health, and general welfare of the citizens of the State.

While DEDO is responsible for attracting new investors and business to the State, for promoting the expansion of existing industry, for assisting small and minority-owned businesses, for promoting and developing tourism, and for creating new and improved employment opportunities for all citizens of Delaware, the Authority is the financing vehicle for carrying out the majority of those activities.

The Authority is a discretely presented component unit of the State and is accounted for as a proprietary fund - an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The Authority operates primarily from budget appropriations from the State.

In order to achieve its objectives, the Authority offers the following funding and services:

Grants

The Authority is empowered to make financial assistance in the form of Strategic Fund grants to qualified applicants. Proceeds of a grant can be used for, but are not limited to, the acquisition of land, buildings, machinery and equipment, the expansion of an existing building, or the renovation of fixed assets and buildings. Proceeds can also be used to augment working capital. In addition, the Authority has specific grant programs such as the Small Business Innovation Research/Small Business Technology Transfer Transitional Grant Assistance program and the Brownfield Assistance Grants program.

Loans

The Authority is empowered to make direct Strategic Fund loans to qualified applicants. Proceeds of a loan can be used for, but are not limited to, the acquisition of land, buildings, machinery and equipment, the expansion of an existing building, or the renovation of fixed assets and buildings. Proceeds can also be used to augment working capital. In addition, the Authority has specific loan programs such as the Limited Investment for Financial Traction (LIFT) program and the Delaware Access Program (DAP).

Investments

The Authority is empowered to make both venture capital and equity investments to qualified applicants. Proceeds of the investments can be used for, but are not limited to, financing expenses, working capital, office space, patent filings, or prototyping.

Tax-Exempt Industrial Revenue Bond (IRB) Financing

The Authority provides statewide financial assistance to new or expanding businesses, governmental units, and certain organizations that are exempt from federal income taxation (collectively, assisted persons) by issuing tax-exempt IRB and lending the proceeds of such bonds to these assisted persons. IRB bear lower interest rates than comparable taxable bonds because the interest paid to bondholders is exempt from federal and Delaware income taxes. The Authority is able to pass on this lower interest rate to the assisted persons.

The Authority does not guarantee the payment of principal or interest on the bonds, and the bonds are not backed by the full faith and credit of the State.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The Authority's activities are financed and operated as an enterprise fund. The accompanying financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standard Board (GASB). Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Authority's policy to first apply the expense towards restricted resources and then toward unrestricted resources.

The Authority has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to follow subsequent private-sector FASB guidance.

Cash and Cash Equivalents

For financial statement purposes, the Authority considers any short-term investments with an original maturity of three months or less to be cash equivalents. The majority of the Authority's cash and cash equivalents is controlled by the State of Delaware, Office of the State

Treasurer; however, the Authority may deposit or withdraw cash at any time without prior notice or penalty. The portion of cash and cash equivalents managed by the Office of the State Treasurer is included as equity in State Treasurer cash and investment pool on the statement of net assets.

Loans

Loans are reported as their principal amount outstanding less any charge-offs and an allowance for loan losses. The borrowers pay principal and interest to the Authority based on their respective loan terms. The current portion of loans receivable includes the portion of principal to be collected during the next fiscal year and the long-term portion consists of the remaining principal.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated. Loan losses are charged against the allowance when management believes the balance is uncollectible. Subsequent recoveries, if any, are credited as received.

The allowance for loan losses is monitored and evaluated on a regular basis by management based upon repayment history, estimated value of any underlying collateral, and prevailing economic conditions.

Investments

Investments consist of both venture capital investments in private equity firms, which have been valued based upon their annual Schedule K-1, and other equity investments, which have been valued at cost.

Nonrefundable Premiums

Deposits made and interest earned by participating banks in the DAP are considered DAP nonrefundable premiums to the Authority and may be realized upon the account closing if the Authority determines that a participating bank should be withdrawn from the program. Until the account is closed, the funds are at the disposal of participating banks.

Fee Income

Fee income includes application fees, modification fees, and conduit bond service fees. Application fees are due prior to project approval. Fees receivable are the balance of annual conduit bond maintenance fees.

Operating and Nonoperating Revenues

Operating revenues consist of fee income and interest income on loans resulting from the Authority's service activities. Nonoperating revenues include income earned on the Authority's cash and cash equivalents, investment gains, and State appropriations.

Operating and Nonoperating Expenses

Operating expenses result from the Authority's service activities and bad debt expenses (recoveries). Nonoperating expenses consist of grant expense, program payments for the DAP, and investment losses. The program payments represent the Authority's payments for the DAP loan defaults.

Transfers

Transfers represent general funds appropriated to the Authority by the State legislature, which are required to be passed through to other State agencies.

Net Assets

All the Authority's net assets are considered unrestricted because such funds have not been legislatively restricted, but rather the Authority has designated certain funds be maintained for a specific purpose or program. At June 30, 2011, the Authority had designated its unrestricted net assets as follows:

LIFT Program	$ 2,100,000
Clean Energy Program	68,564
Loan control account	163,704
Delaware Access Program	1,020,055
	$ 3,352,323

Estimates

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

Note 3 **Cash and Cash Equivalents**

The Authority's cash and cash equivalents consisted of the following at June 30, 2011:

Equity in State Treasurer cash and investment pool (a)	$	61,581,875
County Bank control account (b)		163,704
Delaware Access Program banks (c)		1,020,055
	$	62,765,634

(a) *Equity in State Treasurer Cash and Investment Pool*

A portion of the cash, as reported on the balance sheet, represents the Authority's allocated share of cash, cash equivalents, and investments under the control of the Office of the State Treasurer. This cash is deposited with the Office of the State Treasurer by State agencies and maintained in various pooled funds. The Office of the State Treasurer invests the deposited cash, including cash float in short-term securities and other investments. However, the Authority may deposit or withdraw cash at any time without prior notice or penalty. Interest income is credited to the Authority based on the weighted average rate of return on the State's monies applied to the Authority's average daily cash balance. The classification of pooled cash of the Authority is not determinable at the entity level. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to 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 U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements

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

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

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

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

The State's complete Cash Management Policy is available on the Internet at http://treasurer.delaware.gov.

(b) *County Bank Control Account*

In addition to the cash and cash equivalents held by the Office of the State Treasurer, the Authority has deposits with the County Bank. The account is utilized by the Authority to control certain borrower disbursements that must be approved before the Authority can issue the loan.

(c) *Delaware Access Program Accounts*

The remaining cash and cash equivalents balance consists of funds for the DAP, which consist of reserve accounts at various banks. The Authority owns the funds in the bank's earmarked reserve; however, these funds are pledged to cover losses or pay claims on loans made by the bank under the program. Of the DAP bank balances, $845,582 is insured by the Federal Deposit Insurance Corporation (FDIC) and $338,177 is uninsured.

Note 4 Loans Receivable and Allowance for Loan Losses

The Authority's loans receivable consisted of the following at June 30, 2011:

Strategic Fund loans	$ 50,718,480
LIFT loans	509,537
	51,228,017
Allowance for loan losses	(1,136,895)
Loans receivable, net of allowance	50,091,122
Current portion of loans receivable, net	(924,741)
Long-term portion of loans receivable, net	$ 49,166,381

Changes in the allowance for loan losses relates to $132,107 in direct write-offs of loans and $(424,701) in the adjustment of the loan loss provision.

Note 5 Investments

The Authority's investments consisted of the following at June 30, 2011:

Innovation Ventures, L.P.	$ 1,523,623
Other capital investments:	
Collections Marketing	580,000
Information Assurance Corporation	500,000
Sky-Trax	100,000
	$ 2,703,623

During the year ended June 30, 2011, the Authority's venture capital investments decreased by $703,241 based on the decline of the Authority's allocation of the underlying K-1 reports. The changes in the value of its venture capital investments are summarized as follows:

Innovation Ventures, L.P.	$ (147,102)
Blue Rock	(332,000)
Maverick	(224,139)
	$ (703,241)

Note 6 Employee Benefits

All DEDO personnel of the State are covered by pension, health insurance, and other employee benefit programs administered by the State. Four DEDO positions are assigned to the Authority's personnel appropriation in the 2011 Budget Bill and not funded by the State's Strategic Fund appropriation. These positions incurred $266,126 of payroll and benefit costs, including pension, health insurance, and other employee benefit costs paid to the State agencies responsible for the administration of benefit programs.

The Authority contributes to the State Employees' Pension Plan (the Pension Plan) established by the State to provide benefits for state employees. While the State Pension Plan is an agent multiple-employer public employee retirement system, the Authority accounts for the Pension Plan as a cost-sharing multiple employer public employees retirement system since a separate valuation is not performed of the Authority, and the Authority's only obligation to the Pension Plan is its required annual contributions.

The State does not maintain the Pension Plan or any Other Post-Retirement Employee Benefit (OPEB) information by agency, and therefore, the Authority's portion of the Pension 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 determinable.

Detailed information concerning the State Pension Plan is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Information regarding the OPEB valuation is available in the State's comprehensive annual financial report.

Note 7 Conduit Debt Obligations

The Authority has issued IRB to provide statewide financial assistance to new or expanding businesses, governmental units, and certain organizations that are exempt from federal income taxation. The bonds are secured by the property financed and revenues generated with the bond proceeds and are payable solely from payments received on the underlying obligations. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector or governmental entity served by the bond issuance. Neither the Authority, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2011, the aggregate principal amount payable of IRB outstanding was $1,185,873,765.

Note 8 Commitments and Contingencies

As of June 30, 2011, the Authority had committed to making $55,565,428 in loans and grants. In addition, another $33,735,126 of commitment offers have been extended, but they have not yet been presented to the CDF for final approval.

Commitments to make grants or extend credit are agreements between the Authority and the applicants that generally require the applicants meet certain conditions and make certain certifications regarding the grant or extension of credit that may expire within a specified time period.

In connection with the DAP, the Authority guarantees repayment of certain loans made for economic development purposes. During the year ended June 30, 2011, the Authority paid $380,695 to the third-party lenders for defaults under the program.

Note 9 Risk Management

The Authority is covered by the risk management policy of the State. The State is exposed to various risks of loss related to workers' compensation, employee health care and accident, automobile accident, police professional malpractice, and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its general fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Note 10 Subsequent Events

Events and transactions subsequent to year end have been evaluated for recognition in the financial statements or disclosure in the notes to the financial statements through the date of the auditors' report, which is the date the financial statements were available to be issued.

Santora CPA Group
Right, By Your Side

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

Robert Freed, Principal
Linda A. Pappajohn, Principal
Stephen M. Conyers, CPA, Principal
Stacey A. Wynne, CPA, CFE, CICA, Principal

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

We have audited the financial statements of the Delaware Economic Development Authority (the Authority) for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 items 2011-01 and 2011-03 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 item 2011-02 to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated November 28, 2012.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Council on Development Finance and management of the Delaware Economic Development Authority, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, and Office of Management and Budget.

Santora CPA Group

Newark, Delaware
November 28, 2012

Delaware Economic Development Authority

Schedule of Findings and Responses

Year Ended June 30, 2011

Finding 2011-1

Condition

Based on review of the *State of Delaware Office of the State Treasurer Bank Reconciliations Agreed Upon Procedures* report for the quarters ended March 31, 2012 and June 30, 2012, dated October 16, 2012, we noted that, currently, there is not a First State Financials (FSF) system report that shows a breakout of the Office of the State Treasurer's ending cash balance at the agency or department level. Information is not available to complete this reconciliation at the agency/department level or to provide cash balances at the agency/department level at a specified point in time. As a result, the Office of the State Treasurer completes the monthly Treasurer's to FSF reconciliation at the Statewide level only (by bank code). The State cannot determine the portion of the State Treasurer's pool that is attributable to each individual agency/department, including the Authority. As a result, the Authority does not have information to validate their portion of the Office of the State Treasurer's ending cash balance as of June 30, 2011.

In addition, we noted that the Authority did not have a reconciliation process in place during fiscal year 2011 to ensure that the five cash accounts held outside of FSF were properly reconciled monthly.

Recommendation

The State should develop a process to reconcile cash at the agency and department level monthly, including the development of system reports that detail the Office of the State Treasurer ending cash balances by agency/department. Development of this process would enable the Authority to obtain information from the State regarding their portion of the State Treasurer's pool at fiscal year end for financial statement purposes.

In addition, we recommend that the Authority develop a monthly reconciliation process for each outside bank account to ensure that bank balances for each account are properly reconciled to the Authority's records. This reconciliation process should include:

- Initials of/date by preparer of reconciliation packet to document when the reconciliation was completed.
- A management review and approval process of the completed reconciliation packet, evidenced by the initials of the reviewer and the date the review was completed.
- Investigation of significant or unusual reconciling items, and documentation of the resolution of those items.

View of Responsible Officials

Upon compilation of the fiscal year-end 2011 financial statements, the Authority has identified its need to reconcile its loan reserve Access Program accounts held outside of FSF. The Authority has reconciled its fiscal year ended June 30, 2012 outside accounts and, as of April 2012, the Authority has performed monthly reconciliations.

Finding 2011-2

Condition

In performing the 2011 audit, we noted that the Authority does not have the necessary expertise in order to prepare GAAP basis financial statements, or to ensure that the financial statements, including footnotes, are complete and in accordance with the requirements of GAAP. There is no established, documented internal management review process to ensure that the financial statements are accurate, complete, and that presentation and disclosure is proper.

However, as a result of the above, the Authority has contracted with an outside CPA firm to compile its financial statements for the fiscal year ended June 30, 2011. The process used to obtain the necessary information for balances relies heavily on one individual to provide information requested by the contractor for compilation purposes.

We noted that there is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions. In addition, we noted that there is no process in place to identify, evaluate and implement new accounting pronouncements and their impact on the Authority's financial statements.

Recommendation

We recommend that the Authority develop a process that:

- Delegates responsibility for specific reports, schedules, and documentation to personnel throughout the Authority (i.e. cross training),
- Provides for an independent review of information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor, and
- Provides for review, evaluation, and implementation of new accounting pronouncements that impact the Authority.

View of Responsible Officials

As a result of the audit, the Authority contracted a compilation consultant to present the financial statements under GAAP guidelines. The Authority can consider annually contracting out the compilation piece of the financials on an annual basis.

The compilation contractor will present staff with guidelines on how to compile information for the fiscal year ended June 30, 2012.

GAAP expertise has been provided to the Authority in the past by the Accountant member of the CDF.

As of February 2012, the Authority has reorganized staff responsibilities regarding reporting, schedules, and documentation. Additionally, the Authority cross-trained at least two individuals on duties surrounding reporting, schedules, and documentation.

The Authority has begun drafting written policies and procedures on how to pull, edit, and report information pertaining to these activities.

Finding 2011-3

Condition

Investments consist both of venture capital investments in private equity firms, which have been valued based upon their annual Schedule K-1, and other equity investments, which have been valued at cost. No information was available to determine the proper valuation for these investments, and there is no control or process in place at the Authority to ensure that investments are properly valued and recorded in the Authority's financial statements. In addition, we noted no controls in place to perform due diligence to monitor the performance and value of investments throughout the year.

Recommendation

We recommend that the Authority develop a process to obtain information from invested entities, or contract with external valuation specialists for valuation estimates, to ensure that investments are properly valued and recorded in the Authority's financial statements, and to monitor the performance and value of investments throughout the year.

View of Responsible Officials

Previously, the Authority used K-1 reports to determine the value of its investments. The Authority believes it will be able to monitor the fair-market value of its investments by analyzing each entity's audited financial statements, including Changes in Stockholders' Equity reports, and tying these reports to each entity's fair-market value calculation.