Delaware Agricultural Lands Preservation Foundation
(A Component Unit of the State of Delaware)

Financial Statements, Independent Auditors' Report, and Supplemental Information

June 30, 2016

Report Issued: December 15, 2016

Delaware Agricultural Lands Preservation Foundation

Table of Contents

June 30, 2016

Independent Auditors' Report

To the Management of
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 governmental activities and the major fund of the Delaware Agricultural Lands Preservation Foundation (Foundation), a component unit of the State of Delaware, as of and for the year ended June 30, 2016, 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.

Auditors' 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 auditors' 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

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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 governmental activities and the major fund of the Foundation as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, the budgetary comparison schedules and related notes on pages 41 through 43, and the schedule of proportionate share of the net pension liability and contributions on page 44 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, 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.

Belfint, Lyons & Shuman, P.A.

December 13, 2016
Wilmington, Delaware

Management’s Discussion and Analysis

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Management's Discussion and Analysis
June 30, 2016

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, 2016 (Fiscal Year 2016) and 2015 (Fiscal Year 2015).

Financial Highlights

For the year ended June 30, 2016 the Foundation's assets and deferred outflows increased by $3,362,118 to $243,950,341 from $240,588,223.

For the year ended June 30, 2016, the Foundation's net position increased by $3,353,815 to $243,881,729 from $240,527,914.

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 year ended June 30, 2016 are taken into consideration regardless of when cash is received or paid.

Reporting the Foundation's Most Significant Funds

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

Our analysis of the Foundation's major fund 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 years ended June 30, 2016 and 2015 follows:

Net Position

	Governmental Activities	
	2016	**2015**
Current Assets		
Pooled Cash and Investments	$ 3,851,732	$ 1,858,485
Loans Receivable–Current	23,727	23,727
Rollback Taxes Receivable	168,375	120,411
Total Current Assets	4,043,834	2,002,623
Noncurrent Assets		
Capital Assets, Not Depreciated	233,587,469	232,612,651
Capital Assets, Depreciated	106,570	106,570
Less: Depreciation	105,609	103,823
Total Net Capital Assets, Depreciated	961	2,747
Loans Receivable, Less Current Portion	6,302,056	5,961,943
Total Noncurrent Assets	239,890,486	238,577,341
Total Assets	243,934,320	240,579,964
Deferred Outflows	16,021	8,259
Total Assets and Deferred Outflows of Resources	$ 243,950,341	$ 240,588,223

Entity-Wide Financial Analysis–Continued

Net Position–Continued

	Governmental Activities	
	2016	**2015**
Current Liabilities		
Accounts Payable	$ 7,689	$ 6,648
Accrued Salaries and Related Costs	7,222	6,949
Total Current Liabilities	14,911	13,597
Noncurrent Liabilities		
Compensated Absences	11,317	8,989
Net Pension Liability	30,817	13,868
Total Noncurrent Liabilities	42,134	22,857
Total Liabilities	57,045	36,454
Deferred Inflows	11,567	23,855
Net Position		
Invested in Capital Assets	233,588,430	232,615,398
Restricted by Enabling Legislation	10,293,299	7,912,516
Total Net Position	243,881,729	240,527,914
Total Liabilities, Deferred Outflows, and Net Position	$ 243,950,341	$ 240,588,223

At the close of the year ended June 30, 2016, the Foundation's assets exceeded its liabilities by $243,877,275. At the close of the year ended June 30, 2015, the Foundation's assets exceeded its liabilities by $240,543,510. In both years these assets primarily consisted of capital assets, pooled cash and investments, and loans receivable. The accounts payable at the close of the year ended June 30, 2016 consisted entirely of legal fees for the month of June, while accounts payable at the close of the year ended June 30, 2015 consisted of legal fees, mapping fees, and other monthly expenses such as vehicle rental and utilities. During the year ended June 30, 2016, the majority of the Foundation's monthly fees were paid for out of non-Foundation funds, and mapping services were discontinued early in the fiscal year.

For the year ended June 30, 2016, total capital assets, net of depreciation, increased by $973,032 to $233,588,430 from $232,615,398.

Entity-Wide Financial Analysis–Continued

For the year ended June 30, 2016, pooled cash and investments increased by $1,993,247 to $3,851,732 from $1,858,485. The increase for the year ended June 30, 2016, is largely attributable to the Foundation spending less on easement rights due to the lack of Federal funding, and the use of non-Foundation funds for paying expenses paid out of the Foundation's budget in prior years.

With the implementation of the GASB Statement No. 68, *Accounting and Reporting for Pensions–an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition Contributions Made Subsequent to the Measurement Date*, the Foundation recognized deferred outflows of $8,259, a net pension liability of $13,868, and deferred inflows of $23,855 as of June 30, 2015.

For the year ended June 30, 2016, pension deferred outflows increased by $7,762 to $16,021 from $8,259, the net pension liability increased by $16,949 to $30,817 from $13,868 and deferred inflows decreased by $12,288 to $11,567 from $23,855.

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. During the years ended June 30, 2016 and 2015 loans issued totaled $363,840 and $0, respectively. Loan collections totaled $23,727 during the years ended June 30, 2016 and 2015.

Entity-Wide Financial Analysis–Continued

Governmental Activities

	2016	2015
Revenues		
General Revenues		
Earnings on Pooled Cash and Investments	$ 3,446	$ 1,501
On-Behalf Payments	281,654	221,518
Rollback Taxes	168,878	120,663
License Plate Income	6,580	5,145
Wilson Farm Lease Income	12,155	11,576
Sussex County Easement Income	66,010	-
Program Revenues		
Operating Grants and Contributions–State	3,000,000	2,000,000
Operating Grants and Contributions–County Governments	146,432	95,526
Capital Grants and Contributions	152,697	4,982,525
Operating and Contractual Services	294,000	-
Total Revenues	4,131,852	7,438,454
Expenses		
Farmland Preservation	(225,600)	(256,710)
Young Farmers	(9,172)	(9,351)
Administrative Services		
Operating Services	(433,944)	(389,978)
Contractual Services	(109,321)	(255,024)
Total Expenses	(778,037)	(911,063)
Changes in Net Position	$ 3,353,815	$ 6,527,391

Governmental Activities

Earnings on pooled cash and investments increased to $3,446 for the year ended June 30, 2016 from $1,501 for the year ended June 30, 2015, due largely to the receipt of rollback tax revenue that more than doubled the balance of the Foundation's interest-bearing savings account.

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 by the Foundation. 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.

During the year ended June 30, 2016, the Foundation received and recognized as revenue $146,432 in county reimbursements for easements purchased in Round 19; 2 of the easements purchased by the Foundation in Round 19 settled on June 30, 2015. The remaining easements purchased in Round 19 settled during the year ended June 30, 2016. For the year ended June 30, 2015, the Foundation received $95,526 in county reimbursements for easements purchased in Round 18.

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 $168,878 for the year ended June 30, 2016 from $120,663 for the year ended June 30, 2015. The increase in this source of revenue indicates that more farmland was used for development in the year ended June 30, 2016 than was the case in the year ended June 30, 2015.

License plate income increased to $6,580 for the year ended June 30, 2016, from $5,145 for the year ended June 30, 2015 showing that there is still a strong demand for these items over a decade after they were first sold.

For the year ended June 30, 2016, the Foundation received $3,000,000 in grant funding from the State of Delaware (State). In the past, grant funding from the State was split between the Foundation's farmland preservation program and its corresponding administrative services, but for the year ended June 30, 2016, the entire $3,000,000 State grant was reserved for farmland preservation, with $294,000 of the Foundation's administrative expenses being provided by the Delaware Department of Agriculture's (DDA) Pesticides section. No funding was appropriated to the Young Farmers program.

Governmental Activities–Continued

For the year ended June 30, 2015, the Foundation received $2,000,000 in grant funding from the State, with $1,491,200 and $508,800 appropriated to farmland preservation and its corresponding administrative services, respectively, and no funding appropriated to the Young Farmers program.

Capital grants and contributions, farmland preservation primarily represents funding from the Federal Government. Recent changes to the rules governing the use of Federal grant money for farmland preservation prevented the Foundation from seeking this funding during the year ended June 30, 2016. The Foundation continues to seek a compromise with the Federal Government to secure future funding. The Foundation received $4,847,270 in federal funds during the year ended June 30, 2015.

Contributions from a conservation organization provided funding on two easements purchased by the Foundation during the year ended June 30, 2015, for a total of $135,255. No similar funding was received during the year ended June 30, 2016.

Expenses for administrative services decreased drastically from $645,002 for the year ended June 30, 2015 to $543,265 for the year ended June 30, 2016. During the year ended June 30, 2016 the Foundation discontinued a farmland mapping project with an outside company, resulting in a dramatic reduction in administrative services. Farmland preservation expenses for the years ended June 30, 2016 and June 30, 2015 remained relatively consistent, with amounts of $225,600 and $256,710, respectively. Two farm easements were acquired through Young Farmers program during the year ended June 30, 2016. These easements were capitalized at their total acquisition value of $150,734. No farm easements were acquired through the Young Farmers program during the year ended June 30, 2015.

The Foundation shares employees with the Department of Agriculture (Department). The salaries of these shared employees are paid in full by the Department and the Foundation does not reimburse the Department for their portion of salary expense. On-behalf payments recognized in revenue and administrative salaries and related expenditures during the years ended June 30, 2016 and 2015 totaled $281,654 and $221,518, respectively.

Governmental Funds

	2016	2015
Revenues		
Farmland Preservation	$ 3,000,000	$ 2,000,000
Federal Grant	-	4,847,270
Pesticides Funds	294,000	-
Contributions from Conservation Organization	-	135,255
County Government Reimbursements	146,432	95,526
Young Farmers Contributed Easements	150,734	-
Young Farmers Donations	1,963	
Rollback Taxes	168,878	120,663
On-Behalf Payments	281,654	221,518
License Plate Income	6,580	5,145
Earnings on Pooled Cash and Investments	3,446	1,501
Wilson Farm Lease Income	12,155	11,576
Sussex County Easement Income	66,010	-
Total Revenues	4,131,852	7,438,454
Expenses		
Farmland Preservation	(225,600)	(256,710)
Administrative Services		
Operating Services	(432,930)	(392,942)
Contractual Services	(109,321)	(255,024)
Young Farmers	(9,172)	(9,351)
Capital Outlays		
Property	(974,818)	(10,702,135)
Total Expenses	(1,751,841)	(11,616,162)
Net Change in Fund Balances	2,380,011	(4,177,708)
Fund Balances–Beginning of Year, As Restated (Note L)	7,950,968	12,128,676
Fund Balances–End of Year	$ 10,330,979	$ 7,950,968

Governmental Funds–Continued

Overall, for the Special Revenue Fund, revenues exceeded expenses in Fiscal Year 2016, resulting in a $2,380,111 increase in fund balances. Due to the lack of Federal grant money for the year ended June 30, 2016, the Foundation purchased far fewer easement rights than in previous years, resulting in far less State grant money being spent than in previous years, allowing for an increase in fund balances.

Restatement

Beginning Net Position on the statement of net position and beginning fund balance on the statement of revenues, expenditures, and changes in fund balance have been restated as follows. Note L to the financial statements further details the restatement.

	Net Position	Fund Balance
As of July 1, 2015, As Previously Reported	$ 234,659,871	$ 5,161,297
Adjustment for Understatement of Loans Receivable	2,789,671	2,789,671
Adjustment for Understatement of Capital Assets	3,078,372	-
As of July 1, 2015, As Restated	$ 240,527,914	$ 7,950,968

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.

Government-Wide Financial Statements

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Statement of Net Position
June 30, 2016

Assets	
Current Assets	
Pooled Cash and Investments	$ 3,851,732
Loans Receivable–Current	23,727
Rollback Taxes Receivable	168,375
Total Current Assets	4,043,834
Noncurrent Assets	
Capital Assets, Not Depreciated	233,587,469
Capital Assets, Depreciated	106,570
Less: Depreciation	105,609
Total Net Capital Assets, Depreciated	961
Loans receivable, less current portion	6,302,056
Total Noncurrent Assets	239,890,486
Total Assets	243,934,320
Deferred Outflows	16,021
Total Assets and Deferred Outflows of Resources	$ 243,950,341
Liabilities, Deferred Outflows, and Net Position	
Current Liabilities	
Accounts Payable	$ 7,689
Accrued Salaries and Related Costs	7,222
Total Current Liabilities	14,911
Noncurrent Liabilities	
Compensated Absences	11,317
Net Pension Liability	30,817
Total Noncurrent Liabilities	42,134
Total Liabilities	57,045
Deferred Inflows	11,567
Net Position	
Invested in Capital Assets	233,588,430
Restricted by Enabling Legislation	10,293,299
Total Net Position	243,881,729
Total Liabilities, Deferred Outflows, and Net Position	$ 243,950,341

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Statement of Activities
Year Ended June 30, 2016

	Expenses	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue and Change in Net Assets
Governmental Activities				
Farmland Preservation	$ (225,600)	$ 3,146,432	$ -	$ 2,920,832
Young Farmers Program	(9,172)	-	152,697	143,525
Administrative Services				
Operating Services	(433,944)	164,000	-	(269,944)
Contractual Services	(109,321)	130,000	-	20,679
Total Governmental Activities	$ (778,037)	$ 3,440,432	$ 152,697	2,815,092
	General Revenues			
	Earnings on Pooled Cash and Investments			3,446
	On-Behalf Payments			281,654
	Rollback Taxes			168,878
	License Plate Income			6,580
	Wilson Farm Lease Income			12,155
	Sussex County Easement Income			66,010
	Total General Revenues			538,723
	Change in Net Position			3,353,815
	Net Position–Beginning of Year			234,659,871
	Prior Period Adjustment (Note L)			5,868,043
	Net Position–Beginning of Year, As Restated			240,527,914
	Net Postion–End of Year			$ 243,881,729

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

Fund Financial Statements

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Balance Sheet
June 30, 2016

Assets

Current Assets		
Pooled Cash and Investments	$	3,851,732
Loans Receivable–Current		23,727
Rollback Taxes Receivable		168,375
Total Current Assets		4,043,834
Noncurrent Assets		
Loans Receivable, Less Current Portion		6,302,056
Total Assets	$	10,345,890

Liabilities and Fund Balance

Current Liabilities		
Accounts Payable	$	7,689
Accrued Salaries and Related Costs		7,222
Total Current Liabilities		14,911
Total Liabilities		14,911
Fund Balance		
Restricted by Enabling Legislation		10,330,979
Total Liabilities and Fund Balance	$	10,345,890

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Reconciliation of Balance Sheet to Statement of Net Position
June 30, 2016

Total Governmental Fund Balance	$ 10,330,979
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in the 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.	233,588,430
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:	
Net Pension Liability	(30,817)
Compensated Absences	(11,317)
Deferred inflows and outflows related to the Foundation's net pension liability are based on differences between actual and expected investment returns, changes in the actuarially determined proportion of the Foundation's amount of the total pension liability and pension contributions made after the measurement date of the net pension liability.	
Deferred Outflows–Pension Contributions	16,021
Deferred Inflows–Investment Earnings	(11,567)
Total Net Position–Governmental Activities	$ 243,881,729

The accompanying notes 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, 2016

Revenues	
Farmland Preservation	$ 3,000,000
Pesticides Funds	294,000
County Government Reimbursements	146,432
Young Farmers Contributed Easements	150,734
Young Farmers Donations	1,963
Rollback Taxes	168,878
On-Behalf Payments	281,654
License Plate Income	6,580
Earnings on Pooled Cash and Investments	3,446
Wilson Farm Lease Income	12,155
Sussex County Easement Income	66,010
Total Operating Revenue	4,131,852
Expenditures	
Farmland Preservation	
Appraisals	165,100
Options and Negotiations	60,500
Total Farmland Preservation Expenditures	225,600
Young Farmers Grant	
Easement Survey	2,800
Legal Fees	6,334
Mapping	38
Total Young Farmers Expenditures	9,172

The accompanying notes 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–Continued
Year Ended June 30, 2016

Expenditures–Continued	
Administrative	
Contracts	$ 5,388
Legal Fees	104,646
Mapping	4,675
Appraisals	1,000
Accounting and Auditing	35,502
Office Expense	1,450
Salaries and Related Expenditures	389,590
Total Administrative Expenditures	542,251
Capital Outlay	
Easements and Development Rights	974,818
Total Expenditures	1,751,841
Net Change in Fund Balance	2,380,011
Fund Balance–Beginning of Year	5,161,297
Prior Period Adjustment (Note L)	2,789,671
Fund Balance–Beginning of Year, As Restated	7,950,968
Fund Balance–End of Year	$ 10,330,979

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2016

Net Change in Fund Balances–Total Governmental Fund		
Farmland Preservation, Young Farmers and Administrative Activities	$	2,380,011
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statements of activities, assets with an initial, individual cost of more than $1,000 are capitalized. The cost of capital outlays which are subject to depreciation is allocated over the assets' estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlays		974,818
Depreciation		(1,786)
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated Absences		(2,329)
Pension expenses in the statements of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statements of activities based on the Foundation's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds based on required contributions.		
Pension Expense		3,101
Change in Net Position of Governmental Activities	$	3,353,815

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

Notes to Financial Statements

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Notes to Financial Statements
June 30, 2016

Note A: Nature of Activities and Summary of Significant Policies

***Nature of Activities*–**On July 8, 1991, the Governor of the State of Delaware (State) signed House Bill 200 of the 136th General Assembly 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 (Foundation). The Foundation shall be comprised of 13 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 11 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 2lst 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 year ended June 30, 2016, the General Assembly of the State provided funding for the Foundation under House Bill No. 225 of the 148th General Assembly in the amount of $3,000,000. Administrative costs of the Foundation are included in this funding and were in the amount of $0 for the year ended June 30, 2016. Administrative costs funding for the year ended June 30, 2016 totaled $294,000 and was

Note A: Nature of Activities and Summary of Significant Policies–Continued

Nature of Activities–Continued

provided by the Delaware Department of Agriculture Pesticide Section. All of the funds were administered by the State for the year ended June 30, 2016.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation–The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Foundation gives or receives value without directly receiving or giving equal value in exchange, includes grants and donations. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements are prepared using a different measurement focus (see below) from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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.

Implementation of GASB Statements–During the fiscal year ended June 30, 2016, the Foundation adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The statement requires that (1) investments be measured at fair value and (2) donated capital assets, donated works of art, historical treasures and similar assets, and capital assets received in a service concession arrangement be measured at acquisition value (entry price). The Foundation chose to restate these types of capital assets acquired

Note A: Nature of Activities and Summary of Significant Policies–Continued

Implementation of GASB Statements–Continued

prior to GASB Statement No. 72 to acquisition value upon implementation. The statement also expands disclosures regarding fair value measurements, the level of fair value hierarchy, and valuation techniques.

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.

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

Capital Assets, Depreciated–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. Provisions for depreciation are made over the estimated useful lives of the respective assets (generally five years for equipment) using the straight-line method. 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.

Capital Assets, Not Depreciated–Purchased easements and development rights are intangible capital assets and are recorded at their purchase price. In accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (Note 1), donated easements and development rights are recorded at their acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

Fund Balances/Net Position–In the government-wide statement of net position, the Foundation reports net position in three categories: invested in capital assets, restricted, and unrestricted. At June 30, 2016 net position invested in capital assets, restricted by enabling legislation, and unrestricted totaled $233,588,430, $10,293,299, and $0, respectively.

In accordance with GASB Statement No. 54, the Foundation defines fund balance categories to make the nature and constraints placed on its fund balances transparent. The following classifications describe the relative strength of the spending constraints:

> Non-Spendable Fund Balance–Amounts that are in non-spendable form (such as inventory) or are required to be maintained intact.

Note A: Nature of Activities and Summary of Significant Policies–Continued

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. Fund balance restricted by enabling legislation at June 30, 2016 totaled $10,330,979.

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.

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.

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.

Note A: Nature of Activities and Summary of Significant Policies–Continued

A reconciliation of compensated absences at June 30, 2016 is as follows:

Beginning of Year	$ 8,989
Increase in Liability	2,238
End of Year	$ 11,317

The entire liability is recorded as noncurrent since the liability only matures when the employee resigns or retires. As such, the Foundation estimates that $0 of the liability is due within one year of June 30, 2016.

Deferred Inflows and Outflows of Resources–In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. The deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Foundation reported deferred outflows for pension contributions made subsequent to the measurement date of the net pension liability which will be amortized over future periods.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate section represents a source of net position that will be amortized to future periods.

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.

Subsequent Events–The Foundation has evaluated all events and transactions through the date the financial statements were available to be issued, which is the date of the independent auditors' report.

Note B: Commitments and Contingencies

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

Note C: Pooled Cash and Investments

As of June 30, 2016, funding available to the Foundation through State sources consisted of $3,851,732, 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.

Cash Management Policy Board–The State's policy for the investment of State funds is the responsibility of the Cash Management Policy Board (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

Note C: Pooled Cash and Investments–Continued

Collateralization Requirements–Continued

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.

Since the Foundation's pooled cash and investments are managed by the Office of the State Treasurer, the Foundation 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 www.treasurer.delaware.gov.

Note D: Rollback Taxes

Under the provisions of House Bill 200 of the 136th General Assembly and House Bill 630 of the 136th General Assembly, 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 of the 136th General Assembly, 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, 2016 but not remitted to the Foundation until a later date as rollback taxes receivable. The amount of rollback taxes receivable was $168,375 as of June 30, 2016.

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 cash loans to qualified farmers aged 40 or younger for the purchase of qualified farmland and farmland improvements in order to promote farming in this age group.

At the loan closing the Foundation purchases for $1 a preservation easement on the farmland to be purchased by the young farmer. The Foundation's accounting policy regarding these easements is to record them as donated capital assets at their acquisition value (Note A).

Loan proceeds awarded shall not exceed $500,000 or 70% of the appraised (fair) value of the preservation easement to be placed on the farmland to be purchased. The loans are interest free, secured by a mortgage or second mortgage, and payment terms vary from immediate repayment to a 20-year deferral period. The most frequent repayment deferral period is 15 years. All loans must be repaid within 30 years.

There is no allowance for doubtful loans at June 30, 2016 as there were no material delinquent loan balances or loan defaults during the year.

Scheduled future payments to be received in accordance with these loans is as follows for the years ending June 30:

2017	$ 23,727
2018	23,727
2019	23,727
2020	23,727
2021	23,727
Thereafter	6,207,148
	$ 6,325,783

Note F: Accounts Payable

Accounts payable represent 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 $7,689 as of June 30, 2016.

Note G: Capital Assets

Capital assets activity was as follows for the year ended June 30, 2016:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated				
Easement and Development Rights	$ 232,612,651	$ 974,818	$ -	$ 233,587,469
Capital Assets, Depreciated				
Equipment	106,570	-	-	106,570
Less: Accumulated Depreciation	(103,823)	(1,786)	-	(105,609)
Total Equipment, Net	2,747	(1,786)	-	961
Total Capital Assets, Net	$ 232,615,398	$ 973,032	$ -	$ 233,588,430

Note H: Pension Plan and Other Post-employment Benefits

The Foundation contributes to the State Employees' Pension Plan (Plan) established by the State to provide benefits for state employees. The Plan is a cost-sharing multiple employer defined benefit pension plan established in the Delaware Code. The Plan prepares separate financial statements. All details of the Plan can be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 41, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

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 Employees*–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.

Note H: Pension Plan and Other Post-employment Benefits–Continued

> Service Benefits–Final average monthly compensation (employee hired post-2011 may not include overtime in pension 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.

Vesting–Five years of credited service. For post-2011 employees, ten years of credited service.

Retirement–Age 62 with 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 10 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 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. Post-2011 participants are not offered disability pension benefits and are in the Disability Insurance Program.

Survivor Benefits–If the employee is receiving a pension, the eligible survivor receives 50% (or 66.7% with 2% reduction of benefit or 100% with a 6% 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.

Death Benefit–$7,000 per member.

Employee Contributions–3% of earnings in excess of $6,000. For post-2011 employees, 5% of earnings in excess of $6,000.

Employer Contributions–Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2016, the rate of the employer contribution was 10.72% of covered payroll. The Foundation's employer contributions for the year ended June 30, 2016 was $9,140. The Foundation's required contributions equaled actual contributions made for the year ended June 30, 2016.

Note H: Pension Plan and Other Post-employment Benefits–Continued

Net Pension Liability and Expense–As of June 30, 2016, the Foundation reported a net pension liability of $30,817 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2014 to June 30, 2015. At June 30, 2015, the Foundation's proportion was 0.0046%. Total pension cost for the year ended June 30, 2016 amounted to $10,910.

Deferred Outflows and Inflows of Resources–At June 30, 2016, the Foundation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Net Difference Between Projected and Actual Investment Earnings	$ -	$ (9,423)
Net Difference Between Expected and Actual Experience	-	(691)
Changes in Proportion	6,881	(1,453)
Contributions Subsequent to the Date of Measurement	9,140	-
	$ 16,021	$ (11,567)

$9,140 reported as deferred outflows of resources represents the Foundation's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the following year.

Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows for the years ending June 30:

2017	$ 1,147
2018	1,147
2019	1,147
2020	1,147
2021	1,147
2022	1,147
	$ 6,881

Note H: Pension Plan and Other Post-employment Benefits–Continued

Deferred Outflows and Inflows of Resources–Continued

Amounts reported as deferred inflows of resources will be recognized in pension expense as follows:

2017	$	(4,428)
2018		(4,428)
2019		(4,428)
2020		2,345
2021		(386)
2022		(242)
	$	(11,567)

The following presents a summary of changes in the collective deferred inflows of resources and deferred outflows of resources for the year ended June 30, 2016.

	Measurement Period Ended June 30	Amortization Period	Beginning of Year Balance	Additions	Deductions	End of Year Balance
Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	2015	6 Years	$ -	$ (829)	$ (138)	$ (691)
Change in Proportion	2015	6 Years	-	(1,453)	-	(1,453)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments						
	2014	5 Years	(27,096)	-	(6,774)	(20,322)
	2015	5 Years	-	13,629	2,730	10,899
Total Net Difference Between Projected and Actual Earnings on Pension Plan Investments			(27,096)	13,629	(4,044)	(9,423)
Total Deferred Inflows of Resources			$ (27,096)	$ 11,347	$ (4,182)	$ (11,567)
Deferred Outflows of Resources						
Contributions Subsequent to Measurment Date	2015	1 Year	$ 8,259	$ 9,140	$ (8,259)	$ 9,140
Change in Proportion	2015	6 Years	-	6,881	-	6,881
Total Deferred Outflows of Resources			$ 8,259	$ 16,021	$ (8,259)	$ 16,021

Note H: Pension Plan and Other Post-employment Benefits–Continued

***Actuarial Assumptions*–**The total pension liability as of June 30, 2015, was determined by rolling forward the Foundation's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Return–7.2%, includes inflation at 3.00%

Salary Increases–3.5% to 11.5%, includes inflation at 3.00%

Mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2015 using scale AA for males or females, as appropriate, for mortality improvement.

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

Asset Class	Long-Term Expected Rate of Return
Domestic Equity	5.70%
International Equity	5.70%
Fixed Income	2.00%
Alternative Investments	7.80%
Cash and Equivalents	0.00%

Note H: Pension Plan and Other Post-employment Benefits–Continued

Discount Rate–The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Foundation's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease 6.20%	Current Discount Rate 7.20%	1% Increase 8.20%
Foundation's Proportionate Share of the Net Pension Liability (Asset)	$ 69,926	$ 30,817	$ (14,670)

Pension Plan Fiduciary Net Position–Detailed information about the Delaware Public Employees' Retirement System (DPERS) fiduciary net position is available in the DPERS Comprehensive Annual Financial Report which can be obtained from the pension office at McArdle Building, Suite 41, 860 Silver Lake Boulevard, Dover, Delaware, 19904-2402.

Changes in Assumptions–There have been no changes in assumptions or other inputs or benefit terms affecting the measurement of the total net pension liability at June 30, 2016.

Other Post-employment Benefits–The State provides post-retirement health care benefits, in accordance with State statutes, to all State employees of the Foundation who retire from the State after meeting the eligibility requirements. Please refer to the State Comprehensive Annual Financial Report (CAFR) for post-retirement health care benefits. A copy of the CAFR may be obtained by writing to: State of

Note H: Pension Plan and Other Post-employment Benefits–Continued

Other Post-employment Benefits–Continued

Delaware Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Dover, DE 19904; calling 1-302-672-5505; or visiting: http:// accounting.delaware.gov.

The Foundation contributes to the State of Delaware Employees' Pension Plan, a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"), for post-retirement health care benefits. The Foundation contributed 7.47% of covered payroll, or $5,472 to the State PERS for post-retirement health care benefits for the Year Ended June 30, 2016.

Note I: Fair Value Measurements

The Foundation follows the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* (Note A). GASB Statement No. 72 establishes a fair value hierarchy per inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

> *Level 1*–Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted market prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
>
> *Level 2*–Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
>
> *Level 3*–Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Foundation participates with other state organizations in a cash and investment pool controlled by the Office of the State Treasurer (Note C). The pool is invested in a combination of cash and fixed income instruments with maturities of up to 5 years. The State reports that investments are stated at their quoted market prices, except investment securities with a remaining maturity of one year or less at the time of purchase which are stated at cost or amortized cost. These investments would normally be considered level 1 and level 2 inputs on the fair value hierarchy; however, the existence of pooled allocations in determining the Foundation's share of the pool is considered to be a level 2 input. The fair value for pooled cash and investments categorized as level 2 as of June 30, 2016 was $3,851,732.

Note J: Operating Lease-Lessor

The Foundation has leased a parcel of its farmland located in Sussex County through February 2020. As of June 30, 2016, future minimum rental payments to be received in accordance with the lease is as follows for the years ending June 30:

2017	$ 12,357
2018	12,975
2019	13,624
2020	9,381
	$ 48,337

Note K: On-Behalf Payments

The Foundation shares employees with the Department of Agriculture (Department). The salaries of these shared employees are paid in full by the Department and the Foundation does not reimburse the Department for their portion of salary expense. On-behalf payments recognized in revenue and administrative salaries and related expenditures during the year ended June 30, 2016 totaled $281,654.

Note L: Restatement

Senate Bill No. 117 established a farmland purchase and preservation loan program to be administered by the Foundation to provide a means of facilitating the acquisition of farmland by young farmers while furthering the State's goal of permanently protecting farmland (Young Farmers Program). The program awards interest-free cash loans to qualified farmers aged 40 or younger for the purchase of qualified farmland and farmland improvements. At the loan closing the Foundation purchases for $1 a preservation easement on the farmland to be purchased by the young farmer (Note E).

The Foundation has historically accounted for these transactions by recognizing a loan receivable for the present value of the expected loan repayments. The difference between the cash loan provided and the receivable recorded was recognized as a contribution expense in the Foundation's financial statements.

GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* states that the application of present value measurement is not applicable to low-interest loans issued by governments to carry out governmental objectives. The interest-free loans issued by the Foundation through the Young Farmers Program are

Note L: Restatement–Continued

issued to carry out the governmental objective of permanently protecting farmland and therefore, not subject to present value measurement.

In addition, the Foundation did not capitalize as assets the preservation easements acquired for $1. GASB No. 72, *Fair Value Measurement and Application* (Note A), requires that donated capital assets be capitalized at their acquisition value, which is the price that would be paid to acquire an equivalent asset in an ordinary market transaction.

Beginning net position on the statement of net position and beginning fund balance on the statement of revenues, expenditures and changes in fund balance have been restated as follows to correct for the above.

	Net Position	Fund Balance
As of July 1, 2015, As Previously Reported	$ 234,659,871	$ 5,161,297
Adjustment for Understatement of Loans Receivable	2,789,671	2,789,671
Adjustment for Understatement of Capital Assets	3,078,372	-
As of July 1, 2015, As Restated	$ 240,527,914	$ 7,950,968

Note M: Risk Management

The Foundation is exposed to various risks of loss related to workers' compensation, non-state employee health care and accident, automobile, and property and casualty claims. These risks are covered by commercial insurance purchased from independent third parties.

Required Supplemental Information

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Budgetary Comparison Schedule–Contractual Fund
Budget to Actual*
Year Ended June 30, 2016

	Budget	Actual Amounts	Variance with Budget Positive (Negative)
Revenues			
Farmland Preservation	$ 3,000,000	$ 3,000,000	$ -
Pesticides Funds	130,000	130,000	-
County Government Reimbursements	-	146,432	146,432
Young Farmers Contributed Easements	-	150,734	150,734
Young Farmers Donations	-	1,963	1,963
Rollback Taxes	-	168,878	168,878
License Plate Income	-	6,580	6,580
Interest Income	-	3,446	3,446
Wilson Farm Leae Income	-	12,155	12,155
Sussex County Easement Income	-	66,010	66,010
Total Revenues	3,130,000	3,686,198	556,198
Expenditures			
Farmland Preservation	3,000,000	1,200,418	1,799,582
Young Farmers	-	9,172	(9,172)
Mapping	10,000	4,675	5,325
Legal Fees	120,000	104,646	15,354
Total Expenditures	3,130,000	1,318,911	1,811,089
Net Change in Fund Balance	$ -	2,367,287	$ 2,367,287
Fund Balance–Beginning of Year, As Restated		7,729,194	
Fund Balance–End of Year		$ 10,096,481	

*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, 2016

	Budget	Actual Amounts	Variance with Budget Positive (Negative)
Revenues			
On-Behalf Payments	$ -	$ 281,654	$ 281,654
Pesticide Funds	164,000	164,000	-
Total Revenues	164,000	445,654	281,654
Expenditures			
Salaries and Related Expenditures	107,700	389,590	(281,890)
Accounting and Auditing	36,000	35,502	498
Capital	5,000	-	5,000
Office Expense	9,300	1,450	7,850
Contracts	6,000	5,388	612
Appraisals	-	1,000	(1,000)
Total Expenditures	164,000	432,930	(268,930)
Net Change in Fund Balance	$ -	12,724	$ 12,724
Fund Balance–Beginning of Year, As Restated		221,774	
Fund Balance–End of Year		$ 234,498	

*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.

Delaware Agricultural Lands Preservation Foundation

Notes to the Required Supplementary Information

Budgetary Reporting

June 30, 2016

Note 1: 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 $3,000,000 in funds appropriated by the State to be used for the preservation of agricultural lands within the State and $130,000 provided by the Department of Agriculture Pesticides Section. $0 in funds were 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 $164,000 in funds appropriated by the State to be used for administrative purposes, such as personnel costs.

Together, the budgets encompass the $3,294,000 in State funds received during fiscal year 2016 and are included in the special revenue fund in the financial statements.

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Required Supplementary Information
Schedule of Proportionate Share of the Net Position Liability and Contributions

Proportionate Share of the Net Pension Liability		
Actuarial Valuation Date	June 30, 2015	June 30, 2014
Foundation's Proportion of the Net Pension Liability	0.0046%	0.0050%
Foundation's Proportion of the Net Pension Liability–Dollar Value	$ 9,423	$ 13,868
Foundation's Covered Employee Payroll	$ 107,972	$ 111,011
Foundation's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	8.73%	12.49%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	92.69%	95.80%
Contributions		
Contractually Required Contributions	$ 9,140	$ 8,259
Contributions in Relation to the Contractually Required Contributions	$ 9,140	$ 8,259
Contribution Excess (Deficit)	$ -	$ -
Foundation's Covered Employee Payroll	$ 107,972	$ 111,011
Contributions as a Percentage of Covered Employee Payroll	8.47%	7.44%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

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

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

We have audited, 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, the financial statements of the governmental activities and the major fund of Delaware Agricultural Lands Preservation Foundation (Foundation), a component unit of the State of Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 opinions 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 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.

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

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.

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is 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 an 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.

Belfint, Lyons & Shuman, P.A.

December 13, 2016
Wilmington, Delaware

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Schedule of Findings and Responses
Year Ended June 30, 2016

No Current Year Findings

State of Delaware
Delaware Agricultural Lands Preservation Foundation
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2016

Reference Number: 2015-001
Type of Finding: Significant Deficiency

Condition: In connection with the predecessor auditors' review of the Foundation financial statements, they noted that the Foundation engaged an accounting firm to assist in the compilation of its financial statements for the fiscal years ended June 30, 2015 and 2014. While this process has benefited the Foundation's reporting process, the Foundation still needs to ensure all new accounting pronouncements are properly addressed within its financial statements. In particular, for fiscal year 2015 the financial statements neglected to address the Foundation's adoption of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."

Criteria: The Foundation needs to take a more proactive approach in reviewing and assessing new accounting pronouncements and their potential impact on their financial statements and corresponding disclosures.

Cause: The Foundation was not monitoring new GASB pronouncements and was not fully aware of the need to implement GASB Nos. 68 and 71 Statements into their financial statements.

Effect: The predecessor auditors' recommended that the Foundation develop a quarterly process to monitor and discuss new accounting pronouncements. While the impact of the implementation was not material to its overall financial position, the need to recognize deferred outflows, a net pension liability and deferred inflows as well the corresponding disclosures and supplemental schedule was significant to the overall financial statements.

Recommendation: Along with other significant transactions, the predecessor auditors' recommended the Foundation ensure all new accounting pronouncements are properly addressed and included in their financial statements.

Management's Response: The Aglands Foundation staff responded that they would monitor GASB and GFOA (Government Financial Officers Association) websites for any significant/pertinent accounting procedural changes. Furthermore, they responded that their staff would meet quarterly with the Delaware Department of Agriculture Controller to discuss any new accounting procedures, updates, etc.

Status of Prior Year Findings: The Foundation continues to regularly monitor new GASB pronouncements to ensure timely and accurate implementation.