

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

**Financial Statements
And Supplemental Information
Years Ended June 30, 2015 and 2014**

Report Issued: December 23, 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Agricultural Lands Preservation Foundation (the Foundation) of the State of Delaware, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the budgetary comparison schedule on pages 30 through 32 and the schedule of Foundation's proportional share of net pension liability on page 33 and schedule of contributions on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Gunnip & Company LLP

December 18, 2015

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

**Management's Discussion and Analysis
June 30, 2015 and 2014**

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, 2015 and June 30, 2014.

Financial Highlights

For the Year Ended June 30, 2015 (Fiscal Year 2015), the Foundation's assets and deferred outflows increased by \$6,619,433, to \$234,720,180 from \$228,100,747. For the Year Ended June 30, 2014 (Fiscal Year 2014), the Foundation's assets increased by \$8,319,536 to \$228,100,747 from \$219,781,211.

For the Year Ended June 30, 2015, the Foundation's net position increased by \$6,631,329, to \$234,659,871 from \$228,028,542, after the restatement of \$36,379 for the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension* and GASB Statement No. 71, *Pension Transition Contributions Made Subsequent to the Measurement Date*. For the Year Ended June 30, 2014, the Foundation's net position increased by \$8,322,723 to \$228,064,921 from \$219,742,198.

Using This Financial Report

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

Reporting the Foundation as a Whole

The Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities report information about the Foundation as a whole and about its activities that are necessary in determining whether the Foundation's financial health is improving or deteriorating. These statements include all assets and liabilities using the current financial resources measurement focus and the modified accrual basis of accounting. All revenues and expenses pertaining to the Years Ended June 30, 2015 and 2014 are taken into consideration regardless of when cash is received or paid.

Reporting the Foundation's Most Significant Funds

Fund Financial Statements

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

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

**Management's Discussion and Analysis - Continued
June 30, 2015 and 2014**

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

Entity-Wide Financial Analysis

A comparative net position analysis of the Year Ended June 30, 2015 and the Year Ended June 30, 2014 follows:

| | Net Position | |
|---|---|-----------------------|
| Assets | Governmental Activities 2015 | 2014 |
| Current assets | | |
| Pooled cash and investments | \$ 1,858,485 | \$ 6,083,944 |
| Loans receivable - current | 9,682 | 9,319 |
| Rollback taxes receivable | 120,411 | 63,691 |
| Total current assets | 1,988,578 | 6,156,954 |
| Noncurrent assets | | |
| Capital assets, net of depreciation | 229,537,027 | 218,837,325 |
| Loans receivable, less current portion | 3,186,316 | 3,106,468 |
| Total noncurrent assets | 232,723,343 | 221,943,793 |
| Deferred outflows | 8,259 | - |
| Total assets and deferred outflows | \$ 234,720,180 | \$ 228,100,747 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 6,648 | \$ 25,593 |
| Accrued salaries and related costs | 6,949 | 2,762 |
| Total current liabilities | 13,597 | 28,355 |
| Long-term liabilities | | |
| Compensated absences | 8,989 | 7,471 |
| Net pension liability | 13,868 | - |
| Total liabilities | 36,454 | 35,826 |
| Deferred inflows | \$ 23,855 | \$ - |

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

**Management's Discussion and Analysis - Continued
June 30, 2015 and 2014**

Entity-Wide Financial Analysis - Continued

| | Net Position | |
|---|---|----------------|
| Net position | Governmental Activities 2015 | 2014 |
| Invested in capital assets | \$ 229,537,027 | \$ 218,837,325 |
| Restricted | 5,122,844 | 9,227,596 |
| Total net position | 234,659,871 | 228,064,921 |
| Total liabilities, deferred inflows and net position | \$ 234,720,180 | \$ 228,100,747 |

At the close of the Year Ended June 30, 2015, the Foundation's assets exceeded its liabilities by \$234,659,871. At the close of the Year Ended June 30, 2014, the Foundation's assets exceeded its liabilities by \$228,064,921. In both years these assets primarily consisted of capital assets, pooled cash and investments, and loans receivable. The majority of the accounts payable left at the end of both fiscal years were monthly charges for items such as vehicle rental and utilities along with some legal and mapping fees.

For the Year Ended June 30, 2015, capital assets, net of depreciation, increased by \$10,699,702 to \$229,537,027 from \$218,837,325, while in the Year Ended June 30, 2014, capital assets, net of depreciation, increased by \$8,883,983 to \$218,837,325 from \$209,953,342.

For the Year Ended June 30, 2015, pooled cash and investments decreased by \$4,225,459 to \$1,858,485 from \$6,083,944, while for the Year Ended June 30, 2014, pooled cash and investments decreased by \$1,910,566 to \$6,083,944 from \$7,994,510. The larger decrease for the Year Ended June 30, 2015, is largely attributable to easement purchases and the lower level of state funding the Foundation received for that fiscal year.

With the implementation of the GASB Statement No. 68 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.

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. As no farms were added to the program during the Year Ended June 30, 2015, no contribution expense was incurred. Based upon the present value of the loan repayments for the program, the Foundation recognized a contribution expense of \$1,324,105 during the Year Ended June 30, 2014. Loan collections totaled \$28,583 and \$15,913 during the Years Ended June 30, 2015 and June 30, 2014, respectively.

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**Management's Discussion and Analysis - Continued
June 30, 2015 and 2014**

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2015 | 2014 |
| Changes in Net Position | | |
| Revenues | | |
| General revenues | | |
| Earnings on pooled cash and investments | \$ 1,501 | \$ 921 |
| Charges to county governments | 95,526 | 597,147 |
| Rollback taxes | 120,663 | 63,882 |
| License plate income | 5,145 | 5,285 |
| Miscellaneous income | 11,576 | 12,975 |
| Program revenues | | |
| Operating grants and contributions | 2,000,000 | 4,800,000 |
| Capital grants and contributions | 4,982,525 | 3,675,995 |
| Young Farmers | 103,938 | 1,257,464 |
| Total revenues | 7,320,874 | 10,413,669 |
| Expenses | | |
| Farmland preservation | (256,710) | (303,236) |
| Young Farmers | (9,351) | (1,344,833) |
| Administrative services: | | |
| Operating services | (164,509) | (123,627) |
| Contractual services | (255,024) | (314,509) |
| Compensated absences | (1,518) | (676) |
| Depreciation expense | (2,433) | (4,065) |
| Total expenses | (689,545) | (2,090,946) |
| Change in net position | \$ 6,631,329 | \$ 8,322,723 |

Governmental activities

Earnings on pooled cash and investments increased to \$1,501 for the Year Ended June 30, 2015 from \$921 for the Year Ended June 30, 2014.

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

State of Delaware
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Management's Discussion and Analysis - Continued
June 30, 2015 and 2014

Governmental Activities - Continued

For the Year Ended June 30, 2015, the Foundation received \$95,526 in county reimbursements for easements purchased in Round 18. For The Year Ended June 30, 2014, the Foundation received \$597,147 in county reimbursements for easements purchased in Round 17.

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 \$120,663 for the Year Ended June 30, 2015 from \$63,882 for the Year Ended June 30, 2014. The increase in this source of revenue indicates that more farmland was used for development in the Year Ended June 30, 2015 than was the case in the Year Ended June 30, 2014.

License plate income decreased to \$5,145 for the Year Ended June 30, 2015, from \$5,285 for the Year Ended June 30, 2014.

Operating grants and contributions represent funding from the State. For the Year Ended June 30, 2015, the Foundation received \$2,000,000 in grant funding from the State of Delaware, 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.

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

Capital grants and contributions, farmland preservation primarily represents funding from the Federal Government. The Foundation received \$4,847,270 in federal funds during the Year Ended June 30, 2015. The Foundation received \$3,675,995 in federal funds during the Year Ended June 30, 2014. Although the Foundation purchased fewer easements during the Year Ended June 30, 2015, the average cost of the easements purchased during that year was greater than the average cost of the easements purchased during the Year Ended June 30, 2014.

Contributions from a conservation organization provided funding on two easements purchased by the Foundation for the Year Ended June 30, 2015, for a total of \$135,255. No similar funding was received for the Year Ended June 30, 2014.

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**Management's Discussion and Analysis - Continued
June 30, 2015 and 2014**

While overall expenses for administrative services were fairly consistent for the Years Ended June 30, 2015 and June 30, 2014, farmland preservation expenses decreased \$46,526 to \$256,710 for the Year Ended June 30, 2015 from \$303,236 for the Year Ended June 30, 2014. This was primarily due to the fact that in the Year Ended June 30, 2015 no appraisals were performed with intent to use Federal funds on the properties being appraised, and appraisals of this nature are more expensive than appraisals made on properties which are considered eligible for State funding only. No farm easements were added to the Young Farmers program in the Year Ended June 30, 2015, so expenses decreased drastically to \$9,351 from \$1,344,833 for the Year Ended June 30, 2014. This \$9,351 was composed of standard monthly legal fees and a survey on a farm that ultimately was not included in the program.

Governmental Funds

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

| | 2015 | 2014 |
|--|--------------|---------------|
| Revenues | | |
| State appropriation | \$ 2,000,000 | \$ 4,800,000 |
| Federal grant | 4,847,270 | 3,675,995 |
| Young Farmers | 103,938 | 1,257,464 |
| Charges to county governments | 95,526 | 597,147 |
| Contributions from conservation organization | 135,255 | - |
| Rollback taxes | 120,663 | 63,882 |
| License plate income | 5,145 | 5,285 |
| Earnings on pooled cash and investments | 1,501 | 921 |
| Other income | 11,576 | 12,975 |
| Total revenues | \$ 7,320,874 | \$ 10,413,669 |

**State of Delaware
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**Management's Discussion and Analysis - Continued
June 30, 2015 and 2014**

Governmental Funds - Continued

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

| | 2015 | 2014 |
|---------------------------------------|------------------|------------------|
| Expenditures | | |
| Farmland preservation | \$ 256,710 | \$ 303,236 |
| Administrative services: | | |
| Operating services | 171,424 | 123,627 |
| Contractual services | 255,024 | 314,509 |
| Young Farmers | 9,351 | 1,344,833 |
| Capital outlays: | | |
| Equipment | - | - |
| Property | 10,702,135 | 8,888,048 |
| Total expenditures | 11,394,644 | 10,974,253 |
| Net change in fund balances | (4,073,770) | (560,584) |
| Fund balances - beginning of year | 9,235,067 | 9,795,651 |
| Fund balances - end of year | \$ 5,161,297 | \$ 9,235,067 |

Overall, for the Special Revenue Fund, expenses exceeded revenues in fiscal year 2015, resulting in a \$4,073,770 decrease in fund balances, and expenses also exceeded revenues in fiscal year 2014, resulting in a \$560,584 decrease in fund balances. The Foundation received less state grant money for the Year Ended June 30, 2015 than it did for the Year Ended June 30, 2014, resulting in a greater decrease as fewer funds were available to offset relatively stable expenditures between the two fiscal years.

Requests for Information

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Statements of Net Position
June 30, 2015 and 2014

| | Governmental Activities | |
|---|-------------------------|----------------|
| | 2015 | 2014 |
| Assets | | |
| Current assets | | |
| Pooled cash and investments | \$ 1,858,485 | \$ 6,083,944 |
| Loans receivable - current | 9,682 | 9,319 |
| Rollback taxes receivable | 120,411 | 63,691 |
| Total current assets | 1,988,578 | 6,156,954 |
| Noncurrent assets | | |
| Capital assets - net of depreciation | 229,537,027 | 218,837,325 |
| Loans receivable, less current portion | 3,186,316 | 3,106,468 |
| Total noncurrent assets | 232,723,343 | 221,943,793 |
| Deferred outflows | 8,259 | - |
| Total assets and deferred outflows of resources | \$ 234,720,180 | \$ 228,100,747 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 6,648 | \$ 25,593 |
| Accrued salaries and related costs | 6,949 | 2,762 |
| Total current liabilities | 13,597 | 28,355 |
| Long-term liabilities | | |
| Compensated absences | 8,989 | 7,471 |
| Net pension liability | 13,868 | - |
| Total long-term liabilities | 22,857 | 7,471 |
| Total liabilities | 36,454 | 35,826 |
| Deferred inflows | 23,855 | - |
| Net position | | |
| Invested in capital assets | 229,537,027 | 218,837,325 |
| Restricted by enabling legislation | 5,122,844 | 9,227,596 |
| Total net position | 234,659,871 | 228,064,921 |
| Total liabilities, deferred outflows and net position | \$ 234,720,180 | \$ 228,100,747 |

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

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

**Statement of Activities
For the Fiscal Year Ended June 30, 2015**

| | | Program revenue | | | Net revenue and change in net assets |
|-------------------------------|--------------|-------------------------|--|---|--|
| | Expenses | Charges for services | Operating grants and contributions | Capital grants and contributions | Total |
| Governmental activities: | | | | | |
| Farmland preservation | \$ (256,710) | \$ - | \$ 1,491,200 | \$ 4,982,525 | \$ 6,217,015 |
| Young farmers program | (9,351) | - | - | 103,938 | 94,587 |
| Administrative services: | | | | | |
| Operating services | (166,027) | - | 178,800 | - | 12,773 |
| Contractual services | (255,024) | - | 330,000 | - | 74,976 |
| Depreciation expense | (2,433) | - | - | - | (2,433) |
| Total governmental activities | \$ (689,545) | \$ - | \$ 2,000,000 | \$ 5,086,463 | 6,396,918 |
| General revenues: | | | | | |
| | | | | | 1,501 |
| | | | | | 95,526 |
| | | | | | 120,663 |
| | | | | | 5,145 |
| | | | | | 11,576 |
| | | | | Total general revenues | 234,411 |
| | | | | Change in net position | 6,631,329 |
| | | | | Net position - beginning of year | 228,064,921 |
| | | | | Implementation of GASBs 68 and 71, prior period adjustment | (36,379) |
| | | | | Net position, beginning of year, as restated | 228,028,542 |
| | | | | Net position - end of year | \$ 234,659,871 |

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

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

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

| | | Program revenue | | | Net revenue and change in net assets |
|-------------------------------|-----------------------|-------------------------|--|--|--|
| | Expenses | Charges for services | Operating grants and contributions | Capital grants and contributions | Total |
| Governmental activities: | | | | | |
| Farmland preservation | \$ (303,236) | \$ - | \$ 4,297,400 | \$ 3,675,995 | \$ 7,670,159 |
| Young farmers program | (1,344,833) | - | - | 1,257,464 | (87,369) |
| Administrative services: | | | | | |
| Operating services | (124,303) | - | 207,600 | - | 83,297 |
| Contractual services | (314,509) | - | 295,000 | - | (19,509) |
| Depreciation expense | (4,065) | - | - | - | (4,065) |
| Total governmental activities | <u>\$ (2,090,946)</u> | <u>\$ -</u> | <u>\$ 4,800,000</u> | <u>\$ 4,933,459</u> | <u>7,642,513</u> |
| | | General revenues: | | | |
| | | | | | 921 |
| | | | | | 597,147 |
| | | | | | 63,882 |
| | | | | | 5,285 |
| | | | | | 12,975 |
| | | | | | <u>680,210</u> |
| | | | | | |
| | | | | | 8,322,723 |
| | | | | | |
| | | | | | <u>219,742,198</u> |
| | | | | | |
| | | | | | <u>\$ 228,064,921</u> |

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

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

**Balance Sheets
June 30, 2015 and 2014**

| | Special Revenue Fund | |
|------------------------------------|----------------------|--------------|
| | 2015 | 2014 |
| Assets | | |
| Pooled cash and investments | \$ 1,858,485 | \$ 6,083,944 |
| Loans receivable - current | 9,682 | 9,319 |
| Rollback taxes receivable | 120,411 | 63,691 |
| Total current assets | 1,988,578 | 6,156,954 |
| Noncurrent assets | | |
| Long-term loans receivable | 3,186,316 | 3,106,468 |
| Total assets | \$ 5,174,894 | \$ 9,263,422 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 6,648 | \$ 25,593 |
| Accrued salaries and related costs | 6,949 | 2,762 |
| Total liabilities | 13,597 | 28,355 |
| Fund balance | | |
| Restricted by enabling legislation | 5,161,297 | 9,235,067 |
| Total liabilities and fund balance | \$ 5,174,894 | \$ 9,263,422 |

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Reconciliation of Balance Sheets to Statements of Net Position
June 30, 2015 and 2014

| | 2015 | 2014 |
|---|----------------|----------------|
| Total fund balances | \$ 5,161,297 | \$ 9,235,067 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net position.</p> | 229,537,027 | 218,837,325 |
| <p>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:</p> | | |
| Net pension liability | (13,868) | |
| Compensated absences | (8,989) | (7,471) |
| <p>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</p> | | |
| Deferred outflows - pension contributions | 8,259 | - |
| Deferred inflows - investment earnings | (23,855) | - |
| Total net position – governmental activities | \$ 234,659,871 | \$ 228,064,921 |

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2015 and 2014

| | Special Revenue Fund | |
|--|----------------------|---------------------|
| | 2015 | 2014 |
| Revenues | | |
| Farmland preservation | \$ 2,000,000 | \$ 4,800,000 |
| Federal grant | 4,847,270 | 3,675,995 |
| Young Farmers grant | 103,938 | 1,257,464 |
| County reimbursements | 95,526 | 597,147 |
| Contributions from conservation organization | 135,255 | - |
| Rollback taxes | 120,663 | 63,882 |
| License plate income | 5,145 | 5,285 |
| Interest income | 1,501 | 921 |
| Wilson farm lease income | 11,576 | 12,975 |
| Total revenues | <u>7,320,874</u> | <u>10,413,669</u> |
| Expenditures | | |
| Farmland preservation: | | |
| Appraisals | 198,850 | 243,400 |
| Options and negotiations | 57,000 | 55,500 |
| Survey fees | 860 | 4,336 |
| Total farmland preservation expenditures | <u>256,710</u> | <u>303,236</u> |
| Young Farmers: | | |
| Contribution expense | - | 1,324,105 |
| Appraisals | - | 5,350 |
| Legal fees | 4,851 | 12,628 |
| Mapping | - | 2,750 |
| Survey fees | 4,500 | - |
| Total Young Farmers expenditures | <u>9,351</u> | <u>1,344,833</u> |
| Administrative: | | |
| Contracts | 6,229 | 7,101 |
| Equipment/fleet rental | 8,578 | 9,337 |
| Legal fees | 125,219 | 121,330 |
| Mapping | 129,805 | 193,179 |
| Accounting and auditing | 40,143 | 24,380 |
| Office expense | 5,463 | 9,156 |
| Salaries and related expenditures | 111,011 | 73,653 |
| Total administrative expenditures | <u>426,448</u> | <u>438,136</u> |
| Capital outlay: | | |
| Easements and development rights | 10,702,135 | 8,888,048 |
| Total capital outlay | <u>10,702,135</u> | <u>8,888,048</u> |
| Total expenditures | <u>11,394,644</u> | <u>10,974,253</u> |
| Net change in fund balance | (4,073,770) | (560,584) |
| Fund balance - beginning of year | <u>9,235,067</u> | <u>9,795,651</u> |
| Fund balance - end of year | <u>\$ 5,161,297</u> | <u>\$ 9,235,067</u> |

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

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

**Reconciliation of Statements of Revenues, Expenditures and
Changes in Fund Balances to Statements of Activities
Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 |
|--|----------------|--------------|
| Net change in fund balances | | |
| Farmland preservation, young farmers and administrative activities | \$ (4,073,770) | \$ (560,584) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period: | | |
| Capital outlays | 10,702,135 | 8,888,048 |
| Depreciation | (2,433) | (4,065) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | | |
| Compensated absences | (1,518) | (676) |
| Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses in the statement of activities based on the Foundation's proportionate share of expenses of the cost sharing pension plan, whereas pension contributions are recognized in the government funds based on required contributions. | | |
| Pension expense | 6,915 | - |
| Change in net position – governmental activities | \$ 6,631,329 | \$ 8,322,723 |

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements
June 30, 2015 and 2014

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

1. Nature of Activities

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

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

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

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

For the Years Ended June 30, 2015 and 2014, the General Assembly of the State provided funding for the Foundation under Senate Bill No. 229 in the amount of \$2,000,000 and \$6,000,000, respectively. Administrative costs of the Foundation are included in this funding and were in the amount of \$508,800 and \$502,600 for the Years Ended June 30, 2015 and June 30, 2014. For both fiscal years all of the funds were administered by the State.

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

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

2. Reporting Entity

The Foundation is a discretely presented component of the State.

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

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

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

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

4. Implementation of GASB Statements

During the fiscal year ending June 30, 2015, the Foundation adopted the requirements for 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." GASB Statement No. 68 establishes accounting and financial reporting standards that improve governmental pension reporting. It requires that state and local governments recognize and record the actuarially determined net pension liability, or, for multi-employer cost sharing plans, the entity's share of the net pension liability, in the entity's financial statements. GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made subsequent to the date of measurement.

5. 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.

6. Receivables

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

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

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

7. Capital Assets

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

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

8. Fund Balances/Net Position

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

Non-spendable fund balance – amounts that are in non-spendable form (such as inventory) or are required to be maintained intact.

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

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

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

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

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

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

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

9. 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.

10. 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.

11. 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.

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

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

12. 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.

13. Subsequent Events

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

Note B - Commitments and Contingencies

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

Note C - Pooled Cash and Investments

As of June 30, 2015 and 2014, funding available to the Foundation through State sources consisted of \$1,858,485 and \$6,083,944, respectively, which is a part of the pooled cash and investments controlled by the Office of the State Treasurer.

The funds held by the State investment pool, an internal investment pool, are specifically identified for the Foundation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that the investment securities with a remaining maturity of one year or less at the time of purchase are stated at cost or amortized cost.

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

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

Note C - Pooled Cash and Investments - Continued

The Cash Management Policy Board

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

Investment Guidelines and Management

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

Collateralization Requirements

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

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

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

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2015 and 2014

Note C - Pooled Cash and Investments - Continued

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

Note D - Rollback Taxes

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

The Foundation recorded rollback taxes collected by the counties as of June 30 but not remitted to the Foundation until a later date as rollback taxes receivable. The amount of the rollback taxes receivable were \$120,411 and \$63,691 as of June 30, 2015 and 2014, respectively.

Note E - Loans Receivable

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

Based upon the present value of the loan repayment expected to be paid back, the Foundation recognized contribution expense of \$0 and \$1,324,105 for the Years Ended June 30, 2015 and 2014, respectively. Loans receivable totaled \$3,195,998 and \$3,115,787 as of June 30, 2015 and June 30, 2014, respectively, of which \$9,682 and \$9,319 were considered current.

Interest income associated with these loans receivable totaled \$103,938 and \$57,464 during the Years Ended June 30, 2015 and 2014, respectively.

Loan maturities vary, based on individual agreements. There is no allowance for doubtful loans at June 30, 2015 and 2014, as there were no material delinquent loan balances or loan defaults during the year.

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

Note F - Accounts Payable

Accounts payable represents consulting/contractual services and legal expenses incurred by the Foundation prior to the end of the fiscal year but not paid until the following fiscal year. Accounts payable were \$6,648 and \$25,593 as of June 30, 2015 and 2014, respectively.

Note G - Capital Assets

Capital assets activity was as follows for the Years Ended June 30, 2015 and June 30, 2014:

| | 2015 | | | Ending balances |
|------------------------------------|-----------------------|----------------------|-------------|-----------------------|
| | Beginning balances | Increases | Decreases | |
| Easement and development rights | \$ 218,832,145 | \$ 10,702,135 | \$ - | \$ 229,534,280 |
| Equipment | 106,570 | - | - | 106,570 |
| Less: accumulated depreciation | (101,390) | (2,433) | - | (103,823) |
| Equipment - net | 5,180 | (2,433) | - | 2,747 |
| Total | \$ 218,837,325 | \$ 10,699,702 | \$ - | \$ 229,537,027 |

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Notes to Financial Statements - Continued
June 30, 2015 and 2014

Note H - Pension Plan

The Foundation contributes to the State Employees' Pension Plan (the 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 #1, 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 Employee - Post-2011 employee shall mean an employee, as defined in 29 Del C., Section 5501(e), who is first employed by the State on or after January 1, 2012.

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

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

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

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

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

Note H - Pension Plan - Continued

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

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

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

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

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, 2015, the rate of the employer contribution was 9.56 percent of covered payroll. The Foundation's employer contributions for the years ended June 30, 2015 and 2014 was \$8,259 and \$6,586, respectively. The Foundation's required contributions equaled actual contributions made for the years ended June 30, 2015 and 2014.

Net Pension Liability and Expense

At June 30, 2015, the Foundation reported a net pension liability of \$13,868 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. At June 30, 2014, the Foundation's proportion was 0.0038 percent, which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2013. Total pension cost for the years ended June 30, 2015 and 2014 amounted to \$6,806 and \$10,455, respectively.

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

Note H - Pension Plan - Continued

Deferred Outflows and Inflows of Resources

At June 30, 2015, the Foundation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> |
|---|------------------------------|-----------------------------|
| Net difference between projected and actual investment earnings | \$ - | \$ 23,855 |
| Contributions subsequent to the date of measurement | 8,259 | - |
| | <u>\$ 8,259</u> | <u>\$ 23,855</u> |

\$8,259 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 and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30,</u> | | |
|-----------------------------|----|------------------|
| 2016 | \$ | 5,964 |
| 2017 | | 5,964 |
| 2018 | | 5,964 |
| 2019 | | 5,963 |
| | | <u>\$ 23,855</u> |

Actuarial Assumptions

The total pension liability as of June 30, 2014, was determined by rolling forward the Foundation's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, 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%

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

Note H - Pension Plan - Continued

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:

| <u>Asset Class</u> | <u>Long-term Expected Rate of Return</u> |
|-------------------------|--|
| Domestic equity | 5.7% |
| International equity | 5.7% |
| Fixed income | 2.0% |
| Alternative investments | 7.8% |
| Cash and equivalents | 0.0% |

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.

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

**Notes to Financial Statements - Continued
June 30, 2015 and 2014**

Note H - Pension Plan - Continued

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 | \$ 52,438 | \$ 13,868 | \$ (18,503) |

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 1; 860 Silver Lake Blvd; Dover, DE, 19904.

Net Position -- Pension

By implementing the requirements of GASB Statement No. 68 and GASB Statement No. 71, the Foundation recognized the beginning deferred outflows, net pension liability, and deferred inflows, which reduced the Foundation's net position by \$36,379. For the year ended June 30, 2015, the Foundation recognized a reduction in pension expense of \$6,915 because of the implementation.

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

**Budgetary Comparison Schedule - Contractual Fund
Budget to Actual*
Year Ended June 30, 2015**

| | Budget | Actual amounts | Variance with budget positive (negative) |
|--|--------------|-------------------|---|
| Revenues | | | |
| State aid | \$ 1,821,200 | \$ 1,821,200 | \$ - |
| Federal aid | - | 4,847,270 | 4,847,270 |
| Contributions from conservation organization | - | 135,255 | 135,255 |
| County reimbursements | - | 95,526 | 95,526 |
| Rollback taxes | - | 120,663 | 120,663 |
| License plate income | - | 5,145 | 5,145 |
| Interest income | - | 105,439 | 105,439 |
| Other income | - | 11,576 | 11,576 |
| Total revenues | 1,821,200 | 7,142,074 | 5,320,874 |
| Expenditures | | | |
| Farmland preservation | 1,491,200 | 10,958,845 | (9,467,645) |
| Young farmers | - | 9,351 | (9,351) |
| Mapping | 200,000 | 129,805 | 70,195 |
| Legal fees | 130,000 | 125,219 | 4,781 |
| Total expenditures | 1,821,200 | 11,223,220 | (9,402,020) |
| Net change in fund balance | \$ - | (4,081,146) | \$ (4,081,146) |
| Fund balance - beginning of year | | 9,020,669 | |
| Fund balance - end of year | | \$ 4,939,523 | |

*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, 2015

| | Budget | Actual amounts | Variance with budget positive (negative) |
|----------------------------------|------------|-------------------|---|
| Revenues | | | |
| State aid | \$ 178,800 | \$ 178,800 | \$ - |
| Expenditures | | | |
| Personnel | 107,700 | 111,011 | (3,311) |
| Accounting and auditing | 30,000 | 40,143 | (10,143) |
| Auto rental | 8,300 | 7,919 | 381 |
| Capital | 10,000 | - | 10,000 |
| Contractual (general) | 12,700 | 6,176 | 6,524 |
| Insurance | 5,000 | 4,929 | 71 |
| Supplies | 2,000 | 425 | 1,575 |
| Telephone | 1,100 | 821 | 279 |
| Travel | 2,000 | - | 2,000 |
| Total expenditures | 178,800 | 171,424 | 7,376 |
| Net change in fund balance | \$ - | 7,376 | \$ 7,376 |
| Fund balance - beginning of year | | 214,398 | |
| Fund balance - end of year | | \$ 221,774 | |

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

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

State of Delaware
Delaware Agricultural Lands Preservation Foundation

Note to the Required Supplementary Information
Budgetary Reporting
June 30, 2015

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

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

The contractual fund budget consists of \$1,821,200 in funds appropriated by the State to be used for the preservation of agricultural lands within the State and \$0 in funds appropriated by the State to be used to provide loans to farmers aged of 40 or younger seeking to acquire their own farms.

The operating fund budget consists of \$178,800 in funds appropriated by the State to be used for administrative purposes, such as personnel costs.

Because the funds are used for different purposes, the Foundation creates two separate budgets. Together, the budgets encompass the \$2,000,000 in State funds received during fiscal year 2015 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 Pension Liability and Contributions**

Proportionate Share of the Net Pension Liability

| | June 30, 2014 |
|---|---------------|
| Actuarial valuation date | |
| Foundation's proportion of the net pension liability | 0.0038% |
| Foundation's proportion of the net pension liability - dollar value | \$ 13,868 |
| Foundation's covered employee payroll | \$ 111,011 |
| Foundation's proportionate share of the net pension liability as a percentage of its covered employee payroll | 12.49% |
| Plan fiduciary net position as a percentage of the total pension liability | 95.80% |

Contributions

| | |
|---|--------------------|
| Contractually required contributions | \$ 8,259 |
| Contributions in relation to the contractually required contributions | <u>8,259</u> |
| Contribution excess (deficit) | <u><u>\$ -</u></u> |
| Foundation's covered employee payroll | \$ 111,011 |
| Contribution as a percentage of covered-employee payroll | 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 Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Agricultural Lands Preservation Foundation (the Foundation) of the State of Delaware, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated December 18, 2015.

Internal Control Over Financial Reporting

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-01 to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

Foundation's Responses to the Findings

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

Purpose of this Report

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

Gunnip & Company LLP

December 18, 2015

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

Schedule of Findings and Responses

Current Year Findings

Finding 2015-01:

Condition:

In connection with our review of the Foundation financial statements, we noted that the Foundation engaged an accounting firm to assist in the compilation of its financial statements for the fiscal 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 statement 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:

We recommend 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 is significant to the overall financial statements.

Recommendation:

Along with other significant transactions to ensure they are properly addressed and included in their financial statements.

Management's Response:

The Aglands Foundation staff will monitor GASB and GFOA (Government Financial Officers Association) websites for any significant/pertinent accounting procedural changes. Furthermore, staff will meet quarterly with the Delaware Department of Agriculture Controller to discuss any new accounting procedures, updates, etc.

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

Schedule of Findings and Responses - Continued

Status of Prior Year Findings:

| <u>Prior Year Finding</u> | <u>Brief Description</u> | <u>Current Year Status</u> |
|----------------------------------|--|-----------------------------------|
| 2014-01 | Further Controls Needed Over Financial Reporting | No further action required |
| 2014-02 | Further Controls Needed Over Financial Statement Preparation | See Finding 2015-01 |
| 2014-03 | Verification of the Young Farmers Program Requirements | No further action required |