

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
(A Component Unit of the State of Delaware)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2016

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
(A Component Unit of the State of Delaware)**

TABLE OF CONTENTS

JUNE 30, 2016

	<u>Page No.</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses, and Changes Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Statement of Operating Expenses	14
Statement of Capital Expenses	15



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Independent Auditor's Report

To the Board of Directors
Fort DuPont Redevelopment and Preservation Corporation
Delaware City, Delaware

We have audited the accompanying financial statements of Fort DuPont Redevelopment and Preservation Corporation (the Organization), 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 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 an opinion 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.

To the Board of Directors
Fort DuPont Redevelopment and Preservation Corporation

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

Basis for Qualified Opinion

As described more fully in Note 1 to the financial statements, the Organization has recorded the buildings and improvements, originally donated by the State of Delaware at insured value, and the land, originally donated by the State of Delaware, at values assessed for property tax purposes. In our opinion, accounting principles generally accepted in the United States of America require that donated capital assets be recorded at acquisition value, which would change the assets, net position, revenues and expenses of the Fort DuPont Redevelopment and Preservation Corporation. The amount by which this departure would affect the assets, net position, revenues and expenses of the Fort DuPont Redevelopment and Preservation Corporation has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above, present fairly, in all material respects, the net financial position of Fort DuPont Redevelopment and Preservation Corporation, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in the appropriate operational, economic, or historical context. Our qualified opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements of the Fort DuPont Redevelopment and Preservation Corporation. The statement of operating expenses and the statement of capital expenses are not a required part of the financial statements. The statement of operating expenses and the statement of capital expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the

To the Board of Directors
Fort DuPont Redevelopment and Preservation Corporation

auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the supplementary information of the qualified opinion on the financial statements, as explained in the “Basis for Qualified Opinion” paragraph, the statement of operating expenses and the statement of capital expenses are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2021, on our consideration of the Fort DuPont Redevelopment and Preservation Corporation’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 solely 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 the effectiveness of the Fort DuPont Redevelopment and Preservation Corporation's 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 Fort DuPont Redevelopment and Preservation Corporation's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

April 12, 2021
Wilmington, Delaware

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

CURRENT ASSETS

Cash	\$ 690,202
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CAPITAL ASSETS

Land	2,509,200
Construction in Progress	726,041
Property Held for Development	7,381,074
Buildings	39,223,847
Less: Accumulated Depreciation	<u>(287,631)</u>

NET CAPITAL ASSETS	<u>49,552,531</u>
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TOTAL ASSETS	<u><u>\$ 50,242,733</u></u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$ 2,366
Unearned State Appropriation Revenue	<u>309,694</u>

TOTAL LIABILITIES	<u>312,060</u>
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NET POSITION

Invested in Capital Assets, Net of Related Debt	49,552,531
Unrestricted Net Position	<u>378,142</u>

TOTAL NET POSITION	<u>49,930,673</u>
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TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 50,242,733</u></u>
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The accompanying notes are an integral part of these financial statements.

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION**
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEAR ENDED JUNE 30, 2016

REVENUE	
State Appropriations	\$ 1,100,205
Property Management Income	230,040
Other Revenue	<u>268</u>
TOTAL REVENUE	<u>1,330,513</u>
OPERATING EXPENSES	
Personnel Services	141,941
Materials, Supplies, and Contractual Services	84,389
Depreciation	<u>287,631</u>
TOTAL OPERATING EXPENSES	<u>513,961</u>
OPERATING INCOME	816,552
CAPITAL CONTRIBUTIONS - Contributed Property	<u>49,114,121</u>
CHANGE IN NET POSITION	49,930,673
NET POSITION - Beginning of year	<u>-</u>
NET POSITION - End of year	<u><u>\$ 49,930,673</u></u>

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

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Appropriations Received	\$ 1,640,207
Additions to Property and Equipment	(726,041)
Cash Paid to Suppliers and Employees	<u>(223,964)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>690,202</u>
NET CHANGE IN CASH	690,202
CASH - Beginning of Year	<u>-</u>
CASH - End of year	<u><u>\$ 690,202</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 816,552
 ADJUSTMENTS TO RECONCILE CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	287,631
Increase in Assets:	
Property and Equipment	(726,041)
Increase in Liabilities:	
Accounts Payable	2,366
Unearned Revenue	<u>309,694</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 690,202</u></u>
 SUPPLEMENTALSCHEDULES OF NONCASH CAPITAL AND RELATED INVESTING ACTIVITIES	
Contribution of Property	<u><u>\$ 49,114,121</u></u>

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

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Fort DuPont Redevelopment and Preservation Corporation (the Organization) was created on July 23, 2014 when former State of Delaware Governor Jack Markell signed House Bill 310 into law. As a result, the Organization is an instrumentality of the State of Delaware and the respective legislation defines the powers of the Organization. The State of Delaware's Department of Natural Resources and Environmental Control is the Organization's sole corporate member. The Organization is a component unit of the State of Delaware.

General - Fort DuPont is a property of great historic value to the State of Delaware. Named after Rear Adm. Samuel Francis DuPont, the former military post is situated on the Reedy Point tract, land originally granted to Henry Ward in 1675. A "proposed fort" was planned in 1819, which only appeared on Delaware River charts. Fort DuPont originated during the Civil War as a heavily armed earthwork fortification. In 1864, Sgt. Bishop Crumrine wrote, "these guns command the channel and could blow to atoms any vessel rash enough to attempt to pass." In the decades to follow, "the battery at Delaware City" was gradually modernized into a formidable military post remaining active through World War II. Declared surplus, the site reopened in 1948 as the Governor Bacon Health Center. By 1996, over three-hundred acres was reestablished as Fort DuPont State Park. Fort DuPont is registered as a historic district on the National Register.

In 2013, the Department of Natural Resources and Environmental Control, in collaboration with Delaware City, conducted a planning process to revitalize the Historic Fort DuPont Complex into a vibrant mixed-use community, fully integrated with adjacent Delaware City. The General Assembly recognized that the Fort DuPont Complex along the Delaware River adjacent to Delaware City has enormous potential. It could be a sustainable, mixed-use community producing revenue, jobs, housing choices and recreational and other amenities while preserving its historic character and the surrounding environment. The Organization will act in a planning and development capacity. It can hold, own, preserve, develop, improve, construct, rent, lease, sell, or otherwise acquire or dispose of any real property, including without limitation any real property comprising the Fort Delaware Complex or portion thereof transferred to the Organization.

Measurement Focus and Basis of Accounting - The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB), except for the following matter. The Organization recorded its initial land, land improvements and buildings received from the State of Delaware in a prior year. Such land has been recorded at assessment value. Related land improvements and buildings has been recorded at insured value. GAAP requires that capital assets donated to a government be recorded at Acquisition Value. Acquisition Value is defined as "The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date is referred to as acquisition value." At the time the State of Delaware donated the initial land, land improvements and buildings to the

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting - Continued - Organization, acquisition values were not available; therefore, the use of assessed and insured values represents a departure from GAAP.

Under the economic resources measurement focus and the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses generally result from State Appropriations, sale of tax credits, sales of property, and leasing. Operating expenses include the cost of sales, the cost of services and administrative expenses. Any revenues and expenses not meeting this definition are recorded as nonoperating income and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Organization's policy to first apply the expense towards restricted resources and then towards unrestricted resources.

Income Tax Status - The Organization is exempt from income taxes under the provisions of Section 115 of the Internal Revenue Service Code.

Depreciation - Newly acquired property and equipment is recorded at cost and is being depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended June 30, 2016 was \$287,631. The Organization generally uses the following useful lives:

Buildings and Improvements	40 Years
Land Improvements	15 Years
Vehicles and Equipment	5 Years

Maintenance and repairs costs are expensed as incurred. Gains or losses on sales or retirements are reflected in income.

Advertising and Marketing - Advertising and marketing costs total \$3,091 for the year ended June 30, 2016.

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

Previously Issued Financial Statements - The Organization previously issued compiled financial statements prepared under the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. As a result, certain amounts presented in the previously issued financial statements are not comparable to amounts presented in these financial statements.

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016**

NOTE 2: CASH AND CASH EQUIVALENTS

For purposes of the statement of net position and the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, exceed federally insured limits.

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to the Organization. The Organization does not have a deposit policy for custodial credit risk. At June 30, 2016, the Organization's deposits with the State of Delaware and financial institutions had a carrying amount of \$690,202 and bank balances of \$884,925. As of June 30, 2016, \$291,954 of the Organization's bank balances were exposed to custodial credit risk as the amounts are uninsured and uncollateralized.

NOTE 3: OPERATIONS AND CONCENTRATION OF RISK

The Organization receives a substantial amount of its revenue from the State of Delaware appropriations. If a significant reduction in the level of this revenue were to occur, it would have an effect on the Organization's operations.

NOTE 4: PROPERTY AND EQUIPMENT

The following is a summary of changes in property and equipment for the year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Property and Equipment Not Being Depreciated				
Land	\$ -	\$ 2,509,200	\$ -	\$ 2,509,200
Construction in Progress	-	726,041	-	726,041
Property Held for Development	-	7,381,074	-	7,381,074
 Total Capital Assets Not Being Depreciated	 -	 10,616,315	 -	 10,616,315

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016**

NOTE 4: PROPERTY AND EQUIPMENT - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Property and Equipment Being Depreciated				
Buildings and Improvements	\$ -	\$ 39,223,847	\$ -	\$ 39,223,847
 Total Capital Assets Being Depreciated	 -	 39,223,847	 -	 39,223,847
Less: Accumulated Depreciation for:				
Buildings and Improvements	-	287,631	-	287,631
 Total Accumulated Depreciation	 -	 287,631	 -	 287,631
 Total Capital Assets Being Depreciated, Net	 -	 38,936,216	 -	 38,936,216
 Total Capital Assets, Net	 \$ -	 \$ 49,552,531	 \$ -	 \$ 49,552,531

Land includes the assessed value of lots available for sale.

Construction in progress includes costs accumulated through June 30, 2016 for various rehabilitation and construction projects currently underway.

Buildings not placed in service represents the insured value of various real estate properties the Organization received from the State of Delaware in a prior year, plus certain rehabilitation and development costs paid and less certain buildings that are now in service.

NOTE 5: RETIREMENT PLAN

The Organization maintains a 401(k) retirement plan covering employees who have completed 90 days of service and who are at least 21 years of age. The Organization matches 100% of the first 4% of the employees' contributions. Employees can contribute up to 100% of their compensation or the statutory limit. The Organization's contribution to the plan was \$0 for the year ended June 30, 2016.

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016**

NOTE 6: LEASES - LESSOR

Operating Leases - The Organization has available for lease various real estate properties to tenants under operating leases. The Organization received \$0 in rental income during the year ended June 30, 2016.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date the financial statements were available to be issued.

On June 2, 2017, the Organization completed an agreement with Artesian Water Company (Artesian) for the sale of the Organization's water system for potable water and fire suppression. The Organization received \$851,500 (\$1,000,000 less \$148,500 for identified repair work), in exchange for existing water treatment plant, storage tank, mains, pipes, and other assets which are used to provide potable water and fire suppression services to portions of Fort DuPont and the surrounding properties. Artesian assumed all obligations and responsibilities to provide water service and distribution to Fort DuPont, and to operate and maintain the existing infrastructure in accordance all applicable laws.

The Organization entered into a commercial construction loan agreement with Applied Bank (Applied) on July 27, 2017 for an amount up to \$1,550,000. Interest is computed based on the highest prime rate published daily in the Wall Street Journal's listing of "Money Rates" plus 2.00%, with a floor of 6.00%. The purpose of the loan is to renovate seven officers' quarters residences in the historic Fort DuPont Complex.

The borrowings are secured by a mortgage on these real properties owned by the Organization and the assignment of present and future leases, rents, and profits with respect to these properties to Applied. The loan term is two years interest only during the construction period, followed by a five-year term loan, amortized over 25 years with final payment of any outstanding principal and accrued interest due on August 1, 2024. During the two-year interest only period, the Organization is required to sell certain improved real estate to reduce the loan balance to \$950,000.

The Organization entered into an agreement with a previous tenant in connection with their restoration and rehabilitation of a building owned by the Organization. The Organization has agreed to reimburse the previous tenant \$50,000 over five years in monthly installments of \$833 starting August 1, 2017.

The Organization entered into a construction loan agreement with Parke Bank (Parke) on January 1, 2019 for \$1,200,000. Interest is computed based on the highest prime rate published daily in the Wall Street Journal's listing of "Money Rates" plus 1.00%, with a floor of 6.25%. The purpose of the loan is to develop lots in the Canal District of the Fort Dupont Complex. The borrowings are secured by a mortgage on these real properties owned by the Organization and the assignment of present and future leases, rents, and profits with respect to these properties to Parke. The loan term is two years interest only with final payment of any outstanding principal and accrued interest

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016**

NOTE 7: SUBSEQUENT EVENTS - CONTINUED

due on December 1, 2020. The Organization will apply \$48,000 of proceeds from each lot sale toward the outstanding balance of the loan.

In October 2020, the State of Delaware Department of Health and Social Services (DHSS) submitted notice to the Organization on its intention to terminate its annual lease agreement prior to the September 30, 2028 lease term expiration. As per the lease agreement, DHSS provided adequate notice to the Organization and the lease will terminate on July 31, 2021.

On July 31, 2020, the Organization closed on a loan from WSFS Bank, for \$80,000 for the purchase of two vehicles.

In February 2021, the Organization closed on two loans from Applied Bank, \$885,000 for construction and \$500,000 for site development.

In subsequent years, the Organization entered into various operating leases with both commercial and residential tenants.

In subsequent years, the Organization completed qualified redevelopment and rehabilitation projects on certain owned real estate and improvements entitling it to Delaware Historic Preservation Tax Credits which it sold, at a discount, to third parties.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Organization has entered into various real estate sales agreements and construction agreements that are ongoing for the sale and construction of projects within Fort DuPont. The Organization's real estate sales agreements require the Organization to complete the development of certain lots for sale within a mutually agreed upon time frame with the purchaser.

In the normal course of business, there may be various commitments and contingencies outstanding which may not be reflected in these financial statements. In the opinion of the Organization's management, the outcome of such events, if any, would not have a material effect on the Organization's financial position or operations.

SUPPLEMENTARY INFORMATION

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
STATEMENT OF OPERATING EXPENSES
YEAR ENDED JUNE 30, 2016**

Administrative Expenses	\$ 57,382
Building Improvements	475,910
Common Area Maintenance	6,073
Depreciation Expenses	287,631
Marketing Expenses	3,091
Office Expenses	16,153
Payroll Expenses	141,941
Professional Fees	251,821
Amounts Capitalized as Property and Equipment	<u>(726,041)</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 513,961</u></u>

**FORT DUPONT REDEVELOPMENT AND
PRESERVATION CORPORATION
STATEMENT OF CAPITAL EXPENSES
YEAR ENDED JUNE 30, 2016**

Professional Services	\$ 250,131
Building Improvements	475,910
Amounts Capitalized as Property and Equipment	<u>(726,041)</u>
TOTAL CAPITAL EXPENSE	\$ <u><u>-</u></u>