DIAMOND STATE PORT CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEX

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited the accompanying financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, as of and for the years ended June 30, 2010 and 2009, as listed in the index. These financial statements are the responsibility of the Diamond State Port Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diamond State Port Corporation as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2010 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McBride, Shopa & Co

Wilmington, Delaware
September 14, 2010

Management's Discussion and Analysis

(all amounts in $'000)

As management of the Diamond State Port Corporation (the Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information detailed in the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Port exceeded its liabilities at June 30, 2010 by $148,139 (*net assets*). Included in this amount is $131,803 invested in capital assets net of related debt; and restricted net assets of $14,889 after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.

- The Port's total net assets decreased by $957. The Port incurred a net loss of $3,687 before Capital Contributions and Special Item. A comparable net loss for FY 2009 was $3,591. The loss of $3,687 was partially offset by $2,000 received from the State of Delaware, $614 in donated materials and services from the Delaware Department of Transportation, and the gain from restructuring of debt of $116.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of four components: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents information on all of the Port's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's operations generated revenues and required expenses, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., outstanding invoices and earned but unused vacation leave).

The Statement of Cash Flows presents information showing the Port's cash receipts and payments during the fiscal period classified by principal sources and uses segregated into key elements.

Notes to the Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Basis of Accounting: The Financial Statements of the Port are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). The Port is a component unit of the State of Delaware. The Port's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges. The Port has adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, which provides for the consistent application of GASB pronouncements.

Financial Analysis

As noted earlier, Net Assets, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Port. Port assets exceeded liabilities by $148,139 at the close of FY 2010.

Port's Net Assets
($ '000)

		2010	2009
Current and other assets		$ 19,394	$ 21,959
Capital assets – net of accumulated depreciation		164,195	163,869
	Total assets	183,589	185,828
Long-term liabilities outstanding		30,885	31,688
Other liabilities		4,565	5,044
	Total liabilities	35,450	36,732
Net assets:			
Invested in capital assets, net of related debt		131,803	129,432
Restricted		14,889	15,989
Unrestricted		1,447	3,675
	Total net assets	$ 148,139	$ 149,096

Investment in Capital assets (e.g., land, buildings, machinery, and equipment) constitute 89% of the Port's net assets less any related debt used to acquire those assets that is still outstanding. The increase in net assets invested in Capital assets from $129,432 in FY 2009 to $131,803 in FY

2010 is mainly due to infrastructure improvements and equipment purchases. These capital assets are used to provide necessary or desired services to port customers and tenants, therefore, these assets are *not* available for future spending. The Port's investment in its capital assets is reported net of related debt, however, one should note that the resources needed to repay this debt must be provided from other sources, since under normal circumstances, the capital assets themselves cannot be used to liquidate these liabilities.

A certain amount of the Port's net assets represents resources that are subject to external restrictions on how they may be used. The value of these restricted assets includes $2,000 in grants for Capital improvement projects received in FY 2010 from the State of Delaware as reduced by expenditure and outstanding liabilities incurred while creating such restricted assets, usable only for payments for Capital projects. The balance of net assets - $1,447 - represents *unrestricted net assets* available for any Port related business use. The decrease of $2,228 from the unrestricted net assets of $3,675 as of June 30, 2009, reflects a decrease in current assets, as well as an increase in current liabilities, excluding Notes Payable, of the Port during FY 2010, see Statements of Net Assets.

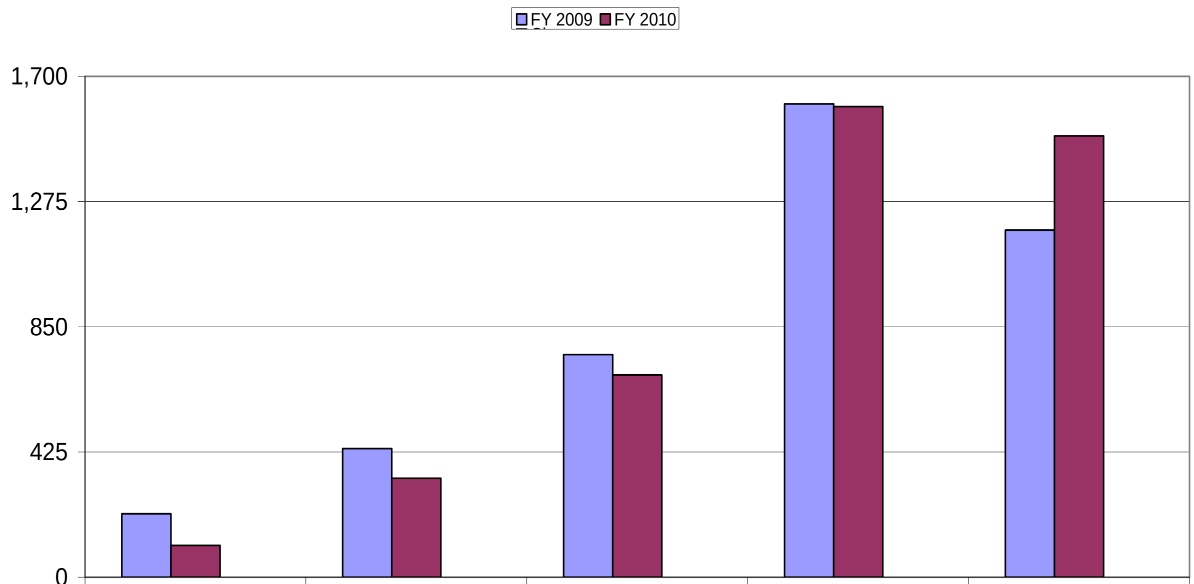
Port Activities. Port activities reduced the Port's net assets by $3,687. Key elements of this change are as follows:

		2010		2009
Operating Revenues:				
Cargo Handling	$	11,596	$	12,479
Dockage & Wharfage		6,715		7,279
Leasing, Storage & Equipment Rental		9,133		8,878
Other		759		573
Total Operating Revenues		28,203		29,209
Operating Expenses:				
Salaries, Wages & Benefits		16,893		17,592
Materials, Supplies & Services		8,604		8,787
Depreciation		5,265		5,224
Total Operating Expenses		30,762		31,603
Operating Income (Loss):		(2,559)		(2,394)
Interest (expense)		(1,262)		(1,464)
Interest Income		19		276
Insurance Recovery		115		-
Gain (Loss) on disposition of assets		-		(9)
Net Loss - before Capital Contributions:		(3,687)		(3,591)

Cargo Tonnage:

A total of 4.2 million tons of cargo passed over the Port's facilities in FY 2010 matching the total tons handled in FY 2009.

Cargo Volume by groups ('000 short tons)



	Vehicles	Break-Bulk	Dry-Bulk	Containers	Liquid Bulk
FY 2009	216	437	756	1,607	1,178
FY 2010	108	336	686	1,597	1,498
Change	-50%	-23%	-9%	-1%	27%

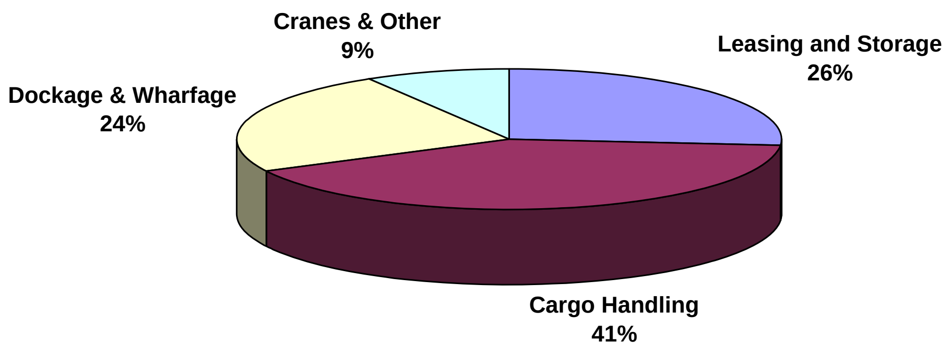
The reduction in Vehicle tonnage was primarily due to GM relocating its Middle East bound cargo to a plant in Texas, with subsequent exporting from Jacksonville. The faltering US economy generated less demand for Break–Bulk steel and lumber imports. Also, adverse climate conditions reduced available volumes of Argentine juice concentrate and Chilean fruit imports, the latter suffering additionally from the destructive February earthquake in Chile. Dry-Bulk tonnage enjoyed significant imported salt volumes (the recent winter had three major storms) but could not overcome reductions in scrap metal demand and Petrolcoke availability. Northbound Container volume leveled off with 52 weekly vessel calls from customers and fixed vessel capacity. Growth continued to occur in Southbound paper volumes. Liquid Bulk volumes increased as a major customer continued to expand its fuel storage capacity at the Port. In a similar but much smaller vein, an importer of juice concentrates expanded its physical plant, to grow its import of liquid bulk products.

Operating Revenue:

During FY 2010, the Port earned $28,203 as operating revenue. This is a decrease of $1,006 from the operating revenue of $29,209 earned in FY 2009.

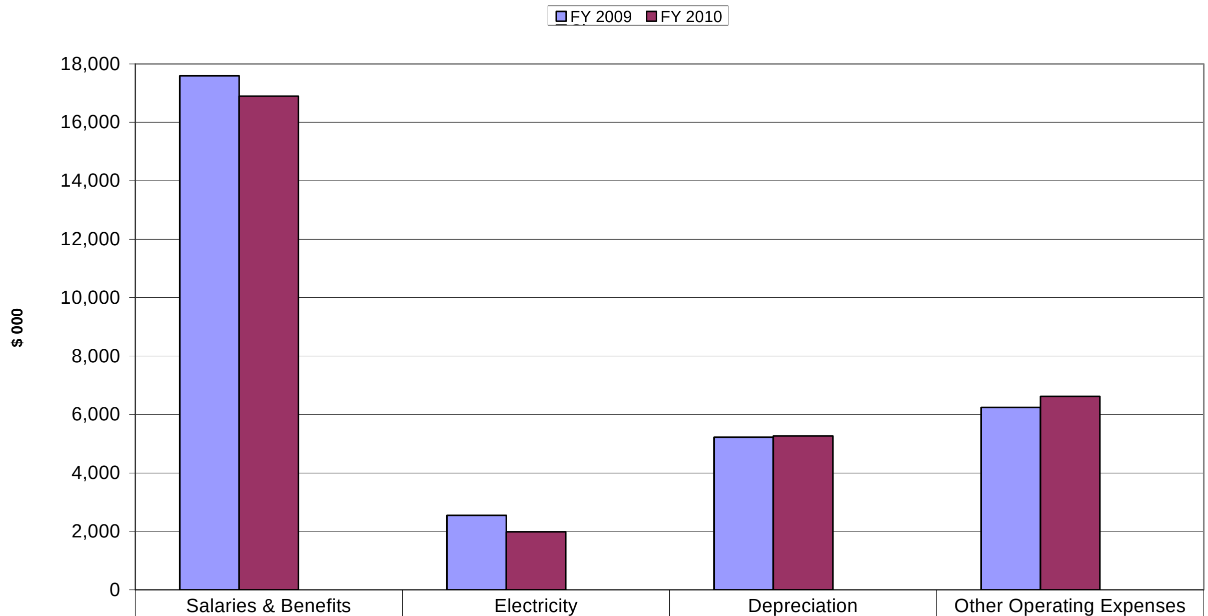
Reduced FY 2010 volumes of Vehicles and Break-Bulk fruit cargoes compared to the FY 2009 period reduced Cargo Handling and Wharfage revenue. Crane equipment rental declined in conjunction with Dry-Bulk volume. Leasing revenue increased due to new customers and contracted rate increases. New business in wind turbines and increased steel and juice storage grew Storage revenue as compared to FY 2009.

Revenues by Source



Operating Expenses:

Total operating expense of $ 30,762 in FY 2010 is a reduction of $841 from FY 2009.



	Salaries & Benefits	Electricity	Depreciation	Other Operating Expenses
FY 2009	17,592	2,546	5,224	6,241
FY 2010	16,893	1,988	5,265	6,616
Change	-4%	-22%	1%	6%

Despite contracted increases in hourly wages and benefit premiums, total Salaries and Benefit expense declined $699 due to significantly fewer hours required to handle the cargo volumes received. The $558 decrease in Electricity expense was the end result of lower usage and lower price per KWHour. Other Operating expenses increased $375 primarily due to City of Wilmington storm water fee increase, higher insurance premiums, and additional security expenses.

Capital Asset and Debt Administration

Capital assets: The Port's investment in capital assets as of June 30, 2010, amounts to $164,196 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, docks and wharves, and machinery and equipment. The net increase in the Port's investment in capital assets in the current fiscal year was $327, comprised of additions and deletions to capital assets and one more year of depreciation.

Major capital assets acquired during FY 2010 were the purchase of handling equipment, vehicles and street and building improvements.

Capital Assets
($ '000)

		2010		2009
Land and Improvements	$	36,357	$	36,330
Buildings		87,441		86,643
Docks & Wharves		46,155		45,168
Equipment		25,043		24,028
Streets and Utilities		5,590		4,967
Vehicles and other assets		8,511		8,263
Sub total		209,097		205,399
Accumulated Depreciation		(55,782)		(50,520)
Total		153,315		154,879
Construction in progress		10,881		8,990
Total	$	164,196	$	163,869

Additional information on the Port's capital assets can be found in Note 5 of Notes to Financial Statements.

Long-term Notes Payables: At the end of the current fiscal year, the Port had total Notes Payables outstanding of $32,392. Of this amount, $7,454 comprises debt to the City of Wilmington incurred at the time of the acquisition of the Port by the State of Delaware from the City of Wilmington in 1995. The Delaware River and Bay Authority is owed $3,382, as part of their financial participation in Warehouse H. The Delaware Department of Transportation (DelDOT) is owed $21,042 for funds borrowed in FY 2002. $264 and $250 are owed to Wilmington Trust and Bank of America respectively for the purchase of handling equipment.

Additional Information is available in Note 8 of Notes to Financial Statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	$ 1,069,936	$ 2,454,252
Accounts receivable - net	2,175,543	2,471,118
Inventory	693,887	482,133
Prepaid expenses and other assets	565,898	562,707
	4,505,264	5,970,210
RESTRICTED ASSETS		
Cash and cash equivalents	14,889,264	15,988,510
CAPITAL ASSETS - NON-DEPRECIABLE	36,385,329	34,494,211
CAPITAL ASSETS - DEPRECIABLE, net	127,809,521	129,374,850
TOTAL ASSETS	$ 183,589,378	$ 185,827,781

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts payable	$ 159,611	$ 84,341
Accrued expenses	2,627,437	1,919,402
Accrued interest payable	208,033	224,431
Due to the State of Delaware - pension costs	51,666	54,236
Notes payable - current	1,507,469	2,748,939
Deferred revenue	11,440	12,732
	4,565,656	5,044,081
NOTES PAYABLE - LONG-TERM	30,884,652	31,687,668
TOTAL LIABILITIES	35,450,308	36,731,749
NET ASSETS		
Invested in capital assets - net of related debt	131,802,729	129,432,454
Restricted		
Capital Improvement Fund	14,889,264	15,988,510
Unrestricted	1,447,077	3,675,068
TOTAL NET ASSETS	148,139,070	149,096,032
TOTAL LIABILITIES AND NET ASSETS	$ 183,589,378	$ 185,827,781

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES		
Handling	$ 11,595,564	$ 12,478,776
Dockage and wharfage	6,714,705	7,279,128
Leasing, storage and equipment rental	9,133,296	8,878,459
Other operating revenue	759,326	572,638
	28,202,891	29,209,001
OPERATING EXPENSES		
Salaries and benefits	16,892,779	17,591,606
Materials, supplies and contractual services	8,603,883	8,787,295
Depreciation expense	5,265,314	5,223,861
	30,761,976	31,602,762
OPERATING LOSS	(2,559,085)	(2,393,761)
NONOPERATING INCOME (EXPENSE)		
Interest expense	(1,262,038)	(1,463,546)
Interest income	19,455	275,478
Insurance recovery	114,651	-
Loss on disposition of assets	(119)	(9,456)
	(1,128,051)	(1,197,524)
NET LOSS BEFORE CAPITAL CONTRIBUTION AND SPECIAL ITEM	(3,687,136)	(3,591,285)
CAPITAL CONTRIBUTIONS		
State Bond Bill	2,000,000	4,000,000
Donated materials and services - DelDOT	613,928	-
Federal	-	58,289
	2,613,928	4,058,289
SPECIAL ITEM		
Gain from restructuring of debt	116,246	-
	116,246	-
CHANGE IN NET ASSETS	(956,962)	467,004
NET ASSETS - BEGINNING	149,096,032	148,629,028
NET ASSETS - ENDING	$ 148,139,070	$ 149,096,032

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	$ 28,584,863	$ 28,597,655
Cash payments to employees for services	(16,820,805)	(17,673,389)
Cash payments to suppliers for goods and services	(6,991,916)	(7,747,914)
Cash payments for insurance	(1,212,560)	(1,004,997)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,559,582	2,171,355
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	26,175	302,204
NET CASH PROVIDED BY INVESTING ACTIVITIES	26,175	302,204
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Insurance recovery	114,651	-
Proceeds from sale of capital assets	-	9,553
Acquisition and construction of capital assets	(55,395)	(9,435)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	59,256	118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,921,899)	(2,297,033)
Interest paid on loans	(457,737)	(1,514,030)
Principal paid on loans	(2,748,939)	(3,054,115)
Contributed capital	2,000,000	4,058,289
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(6,128,575)	(2,806,889)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,483,562)	(333,212)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	18,442,762	18,775,974
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 15,959,200	$ 18,442,762

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET		
Current assets	$ 1,069,936	$ 2,454,252
Restricted assets	14,889,264	15,988,510
	$ 15,959,200	$ 18,442,762
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (2,559,085)	$ (2,393,761)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	5,265,314	5,223,861
Net change in the allowance for doubtful accounts	4,452	(2,618)
(Increase) decrease in:		
Accounts receivable	291,123	(448,684)
Inventory	(211,754)	(13,330)
Prepaid expenses and other assets	(9,911)	(57,957)
Increase (decrease) in:		
Accounts payable	75,270	32,814
Accrued expenses	708,035	(62,941)
Due to State of Delaware - pension costs	(2,570)	2,719
Deferred revenue	(1,292)	(108,748)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,559,582	$ 2,171,355
SUPPLEMENTAL SCHEDULES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Accretion of deferred loss	$ 9,026	$ 8,541
Cost of disposed of fixed assets, resulting in loss of $119 during 2010 and a loss of $9,456 during 2009	$ 3,842	$ 198,703
Interest capitalized as principal portion of long-term debt	$ 811,673	$ -
In-kind contribution from DelDOT - fixed assets	$ 613,928	$ -
Gain on refinancing of debt	$ 116,246	$ -

See notes to the financial statements.

NOTE 1 ORGANIZATION

The Diamond State Port Corporation (the Corporation) was created on August 3, 1995 in accordance with the provisions of Section 24(1) of Senate Bill 260 enacted by the 138th General Assembly of the State of Delaware (the State). The Corporation is a public instrumentality of the State of Delaware exercising essential government functions necessary in connection with the acquisition, establishment, construction, rehabilitation, improvement, operation, and maintenance of the Port of Wilmington (the Port) and related facilities. The Port was acquired by the Corporation on September 1, 1995. The Corporation is empowered without limitation, and notwithstanding any other laws, to adopt bylaws and rules and regulations to govern the conduct of its affairs and carry out and discharge its powers, duties, and functions, to sue and be sued, and to enter into contracts and agreements. The Corporation does not have power to tax, to issue bonds, to exercise the power of eminent domain, or to pledge the credit or create any debt or liability of the State of Delaware.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting. The accompanying financial statements of the Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation (the reporting entity) is a component unit of the State of Delaware. The Corporation's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Operating revenues and expenses generally result from providing services and leasing in connection with the Corporation’s ongoing operations. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are recorded as nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Corporation's policy to first apply the expense towards restricted resources and then toward unrestricted resources.

The Corporation has adopted the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting, which provide for the consistent application of GASB pronouncements and only pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, except where those FASB pronouncements conflict with GASB pronouncements in which case the GASB pronouncements take precedence.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Corporation considers short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful accounts of $51,302 and $46,850 in 2010 and 2009, respectively.

Inventory. Inventory consists of equipment parts, office supplies, and marketing materials. Inventory is stated at the lower of cost or market value.

Capital Assets. The assets originally acquired by the Corporation in 1995 were recorded based on estimated fair values. Non-depreciable assets consist of the estimated fair value of land, which was determined based on an independent appraisal, and construction-in-progress. The fair values of all other assets acquired were estimated to be the book value of those assets at the date of acquisition. Additions and improvements in excess of $3,000 are capitalized.

Depreciation is generally recorded using the straight-line method and half-year convention over the following estimated useful lives:

Improvements (all categories)	20-30 years
Buildings and warehouses	30-75 years
Docks, wharves, and rail	50-60 years
Equipment and cranes	6-40 years
Streets and utilities	20-40 years
Vehicles, other	6 years

Revenues. The significant sources of revenue are:

Handling - represents charges against the owner of cargo for moving cargo into or out of storage, loading on or off trucks, or to or from a point of rest on the dock where it has been deposited.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Dockage and wharfage -	represents charges assessed against vessels and barges for berthing at the wharf, pier, and bulkhead structures, handling lines for the docking and undocking of vessels, and represents charges assessed against vessels, or against another properly designated party, on all cargo passing or conveyed over, onto, or under wharves or between vessels when berthed at the wharf.
Leasing -	represents fees charged on a contractual basis for the rental of land or buildings at the Port. Rates are determined on a contract-by-contract basis.
Storage -	represents charges for the storage of cargo in the Port's dry, refrigerated and freezer warehouses and open areas.
Equipment rental -	represents charges for equipment use against vessels and barges that bring their own crews to load and unload cargo.

Contributions of Capital. Contributions of capital arise from State and Federal grants, generally restricted by the contributors to capital acquisition and construction. All capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses.

Compensated Absences. Regular full-time employees accrue vacation on a calendar year basis in varying amounts based on length of service. Employees can accumulate up to 400 hours, or 50 days of vacation time. Unused vacation time can be carried forward to the next benefit year in an amount up to the annual vacation amount. Upon termination, employees will be paid for unused vacation time.

Sick leave is earned by regular, full-time administrative employees at the rate of one day per month. Unused sick leave benefits accumulate indefinitely. Any unused sick leave hours will not be paid to employees while they are employed or upon termination of employment.

The liability for compensated absences through year-end, but not yet taken, is accrued.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Deferred loss. The Corporation incurred deferred losses on two refundings of the Port Debt Service Note in 2002 and 2005, which are being accreted over the remaining life of the Note at the time of each refunding.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, through subsequent events, actual results could differ from those estimates.

NOTE 3 CASH, INVESTMENTS AND RESTRICTED ASSETS

The Cash Management Policy Board: The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware," of the State's 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 with certain limited exceptions.

Investment Guidelines and Management:
The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

A. Cash Accounts: Divide the State's available cash into three parts:
   1) Collection and Disbursement Accounts,
   2) Cash and Liquidity Accounts,
   3) Reserve Cash (Intermediate) Account.

B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:
   1) Endowment Accounts,
   2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds, and debt service reserve funds.

The Corporation's accounts are considered Authority Accounts.

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The State's Cash Management Policy is available on the Internet at http://treasurer.delaware.gov/information/cash_investment.shtml.

Custodial Credit Risk

Collateralization Requirements: All State deposits 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. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% 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:

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

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

At June 30, 2010 and 2009, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, short-term money market funds, and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, is under the control of the Corporation. The Corporation invests the deposited cash, including the cash float in short-term securities and other investments.

At June 30, 2010 and 2009, the bank balances of the Corporation’s deposits were $16,311,791 and $18,583,949, respectively. Of the bank balances, $250,000 is insured by the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2010 and 2009, respectively; thus, at June 30, 2010 and 2009, $16,061,791 and $18,333,949 would be subject to custodial credit risk, respectively. However, the deposits are held at a financial institution, which satisfies the criteria listed above and not requiring collateralization.

NOTE 4 RESTRICTED ASSETS

Restricted assets and the purpose of the restriction are as follows:

	2010	2009
Capital improvements	$ 14,889,264	$ 15,988,510

Assets restricted for capital improvements consist of contributions from the State of Delaware and the Federal government. These assets are invested in money market accounts. They are considered to be cash equivalents.

NOTE 5 CAPITAL ASSETS

Property and equipment changes during 2010 consisted of the following:

	2009	Additions	Retirements	Transfers	2010
Capital assets, non-depreciable					
Land	$ 25,504,410	$ -	$ -	$ -	$ 25,504,410
Construction in progress	8,989,801	3,701,939	-	(1,810,821)	10,880,919
Total capital assets - non-depreciable	$ 34,494,211	$ 3,701,939	$ -	$ (1,810,821)	$ 36,385,329
Capital assets, depreciable					
Land improvements	$ 10,825,294	$ -	$ -	$ 27,189	$ 10,852,483
Buildings	86,643,028	-	-	797,473	87,440,501
Docks and wharves	45,168,479	-	-	986,159	46,154,638
Equipment	24,028,423	1,018,689	(3,842)	-	25,043,270
Streets and water utilities	4,966,841	622,818	-	-	5,589,659
Vehicles and other assets	8,263,120	247,776	-	-	8,510,896
Total capital assets, depreciable	179,895,185	1,889,283	(3,842)	1,810,821	183,591,447

CAPITAL ASSETS (Cont'd.)

	2009	Additions	Retirements	Transfers	2010
Less: accumulated depreciation:					
Land improvements	6,348,597	602,783	-	-	6,951,380
Buildings	18,879,009	1,995,959	-	-	20,874,968
Docks and wharves	9,780,384	1,072,252	-	-	10,852,636
Equipment	7,523,955	953,924	(3,723)	-	8,474,156
Streets and water utilities	2,026,470	241,034	-	-	2,267,504
Vehicles and other assets	5,961,920	399,362	-	-	6,361,282
Total accumulated depreciation	50,520,335	5,265,314	(3,723)	-	55,781,926
Total capital assets, depreciable, net	$ 129,374,850	$ (3,376,031)	$ (119)	$ 1,810,821	$ 127,809,521

CAPITAL ASSETS (Cont'd.)

Depreciation expense was $5,265,314 for 2010 and $5,223,861 for 2009.

As a part of its continual program to upgrade port facilities, the Corporation has undertaken a capital project to reconstruct one of its berths. The total estimated cost is approximately $11.4 million. The Corporation had paid or accepted as payable approximately $10.4 million for this project.

During 2009, a roof on a warehouse, which was installed during 2008, was completely damaged during a severe storm. The replacement cost of the roof was $1,913,759, which was covered by insurance proceeds. The expenditures for the roof are not shown as additions to capital assets.

During 2010, a department of the State contributed improvements in the amount of $613,928 to the Corporation.

NOTE 6 LEASING REVENUE

The Corporation leases certain Port terminal and storage space to tenants. Total rental income under these operating leases amounted to $5,405,704 and $5,122,730 for 2010 and 2009, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases with original lease term in excess in one year as of June 30, 2010.

2011	$ 5,494,147
2012	5,566,756
2013	5,627,808
2014	5,704,265
2015	5,812,367
Thereafter	59,633,697
	$ 87,839,040

NOTE 7 REVOLVING LINE OF CREDIT

The Corporation has a $3,000,000, unsecured, revolving line of credit from Wilmington Trust Company (WTC), none of which was outstanding at June 30, 2010 and 2009. Bank advances on the credit line are payable within 30 days of demand and carry an interest rate based on WTC's commercial rate index.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 8 LONG-TERM DEBT

Long-term debt changes during 2010 and 2009 were as follows:

2010

	Outstanding June 30, 2009	Refinance Adjustment / Issued	Payments and Other Reductions	Outstanding June 30, 2010
Transportation Trust Fund Note	$ 20,230,568	$ 811,673	$ -	$ 21,042,241
City of Wilmington Port Debt Service Notes	10,021,068	(116,246)	(2,451,145)	7,453,677
Delaware River and Bay Authority	3,591,302	-	(208,990)	3,382,312
Wilmington Trust Company	315,571	-	(52,110)	263,461
Bank of America - Master Lease	278,098	-	(27,668)	250,430
Total notes payable	34,436,607	$ 695,427	$ (2,739,913)	32,392,121
Notes payable - current	2,748,939			1,507,469
Notes payable - long-term	$ 31,687,668			$ 30,884,652

2009

	Outstanding June 30, 2008	Issued	Payments and Other Reductions	Outstanding June 30, 2009
Transportation Trust Fund Note	$ 20,887,406	$ -	$ (656,838)	$ 20,230,568
City of Wilmington Port Debt Service Notes	12,128,721	-	(2,107,653)	10,021,068
Delaware River and Bay Authority	3,797,183	-	(205,881)	3,591,302
Wilmington Trust Company	363,925	-	(48,354)	315,571
Bank of America - Master Lease	304,946	-	(26,848)	278,098
Total notes payable	37,482,181	$ -	$ (3,045,574)	34,436,607
Notes payable - current	3,054,113			2,748,939
Notes payable - long-term	$ 34,428,068			$ 31,687,668

LONG-TERM DEBT (Cont'd.)

Interest changes during 2010 and 2009 were as follows:

2010

	Accrued Interest June 30, 2009	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2010
Transportation Trust Fund Note	$ 67,265	$ 814,373	$ (811,673)	$ 69,965
City of Wilmington Port Debt Service Notes	151,704	365,736	(384,412)	133,028
Delaware River and Bay Authority	4,489	52,176	(52,437)	4,228
Wilmington Trust Company	973	21,744	(21,905)	812
Bank of America - Master Lease	-	8,009	(8,009)	-
Total accrued interest	$ 224,431	$ 1,262,038	$ (1,278,436)	$ 208,033

2009

	Accrued Interest June 30, 2008	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2009
Transportation Trust Fund Note	$ 80,068	$ 947,955	$ (960,758)	$ 67,265
City of Wilmington Port Debt Service Notes	197,520	425,962	(471,778)	151,704
Delaware River and Bay Authority	4,746	55,289	(55,546)	4,489
Wilmington Trust Company	1,122	25,511	(25,660)	973
Bank of America - Master Lease	-	8,829	(8,829)	-
Total accrued interest	$ 283,456	$ 1,463,546	$ (1,522,571)	$ 224,431

LONG-TERM DEBT (Cont'd.)

Transportation Trust Fund Loan. On November 30, 2001, the Corporation entered into a loan agreement with the Department of Transportation of the State of Delaware (DelDOT). The Corporation borrowed $27,500,000. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington-Deferred Payment Note.

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next twenty-two years. Additionally, the State appropriated $10,000,000 to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are due March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next twenty-one years. The interest rate was 3.99% during 2010 and 4.6% during 2009. The loan matures March 2029.

Interest expense charged to operations during 2010 and 2009 was $814,373 and $947,955, respectively.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 788,915	$ 838,826	$ 1,627,741
2012	820,567	807,174	1,627,741
2013	853,489	774,252	1,627,741
2014	887,732	740,009	1,627,741
2015	923,349	704,392	1,627,741
2016-2020	5,203,067	2,935,638	8,138,705
2021-2025	6,334,014	1,804,691	8,138,705
2026-2030	5,231,108	465,985	5,697,093
	$ 21,042,241	$ 9,070,967	$ 30,113,208

LONG-TERM DEBT (Cont'd.)

City of Wilmington Notes Payable. In consideration for the acquisition of the Port assets from the City of Wilmington, Delaware (the City), the Corporation issued to the City a Port Deferred Payment Note, with an original amount of $39,900,000, and a Port Debt Service Note with an original face amount of $51,080,622, both secured by a first lien on substantially all of the Corporation's assets.

a. Port Deferred Payment Note. In 2002, the remaining amounts due were prepaid to the City using the proceeds from the Transportation Trust Fund Loan.

b. Port Debt Service Note. The Port Debt Service Note requires payments to the City in amounts which equal the debt service of certain Port-related City general obligation bonds, with interest rates from 3.2% to 6.4%.

On October 20, 2001, the City issued $22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund $21,335,000 of outstanding 1992 A, B and C Series general obligation bonds with an average interest rate of 6.16%. The Port-related portions of the new bonds issued and old bonds redeemed were $7,206,705 and $6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by $281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven-year life of the debt. The deferred loss balance as of June 30, 2010 and 2009 was $15,285 and $20,008, respectively.

On October 5, 2004, the City issued $12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund $11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were $3,992,497 and $3,594,635, respectively, passed through to the Corporation. Although the effect of the City’s advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $397,862, it reduces the Corporation’s debt service payments by $251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2010 and 2009 was $377,268 and $381,571, respectively.

LONG-TERM DEBT (Cont'd.)

On June 30, 2006, the State of Delaware paid the City on behalf of the Corporation, $5,000,000, in lieu of amounts due for the Port-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling $5,645,991, reducing the total amount owed to the City by $5,645,991. The effect of the advance payment was a reduction of principal in the amount of $5,087,389, a reduction of accrued interest due July 1, 2006 in the amount of $308,844, and a resulting gain of $396,233.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which the Corporation has correlating notes with the City. Overall, the Corporation will pay an additional $60,000 in principal over the next nine years; however, the Corporation will save $334,673 in interest during the same time period. In summary, the Corporation will pay $274,673 less on the City notes due to the refunding/financing. Maturity for these bonds occurrs on July 1, 2022.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, which the Corporation has correlating notes with the City. The immediate impact is a reduction in debt service of $1,063,000 for 2011 and 2012. Overall, the Corporation will save $116,246 in principal, resulting in an economic gain; however, the Corporation will pay an additional $893,327 in interest over the next thirteen years.

Total deferred loss balance as of June 30, 2010 and 2009 was $392,553 and $401,579, respectively. The amortization of deferred loss of $9,026 and $8,541 during 2010 and 2009, respectively, is charged to interest expense.

Principal and interest payments made on the note were $2,451,145 and $384,412, respectively, during 2010, and $2,107,653 and $471,778, respectively, during 2009.

Interest expense on the note in 2010 and 2009 was $356,710 and $417,421, respectively.

LONG-TERM DEBT (Cont'd.)

The future maturities of principal and interest payments on the Port Debt Service Note are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 421,738	$ 364,089	$ 785,827
2012	1,182,665	320,307	1,502,972
2013	609,625	290,783	900,408
2014	660,957	264,347	925,304
2015	701,468	232,697	934,165
2016-2020	2,416,954	714,991	3,131,945
2021-2023	1,852,823	126,067	1,978,890
	7,846,230	2,313,281	10,159,511
Deferred loss on refunding	(392,553)	-	(392,553)
Total	$ 7,453,677	$ 2,313,281	$ 9,766,958

Delaware River and Bay Authority Obligation. On March 1, 2005, the Corporation entered into an agreement with the Delaware River and Bay Authority (DRBA) whereby the Corporation agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was $4,000,000, to be paid in advance. Simultaneously, the Corporation and the DRBA entered into an operating agreement in which the Corporation agreed to make guaranteed payments to the DRBA in the amount of $21,786, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling $4,000,000 plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. The Corporation began making guaranteed payments on July 1, 2007.

Interest expense incurred on this obligation was $52,176 and $55,289 in 2010 and 2009, respectively.

LONG-TERM DEBT (Cont'd.)

The future maturities of principal and interest payments on the DRBA obligation are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 212,147	$ 49,280	$ 261,427
2012	215,351	46,076	261,427
2013	175,178	86,249	261,427
2014	180,506	80,921	261,427
2015	185,997	75,430	261,427
2016-2020	888,039	419,095	1,307,134
2021-2025	1,030,131	277,003	1,307,134
2026-2030	494,963	27,894	522,857
	$ 3,382,312	$ 1,061,948	$ 4,444,260

Wilmington Trust Company Loan. The Corporation entered into a loan agreement with the Wilmington Trust Company (WTC) on August 17, 2007 for $401,973 to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,186 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.40%.

Interest expense incurred on this obligation was $21,744 and $25,511 during 2010 and 2009, respectively.

The future maturities of principal and interest payments on the WTC obligation are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 56,156	$ 17,858	$ 74,014
2012	60,518	13,496	74,014
2013	65,218	8,796	74,014
2014	70,283	3,731	74,014
2015	11,286	105	11,391
	$ 263,461	$ 43,986	$ 307,447

LONG-TERM DEBT (Cont'd.)

Bank of America Master Lease. In 2008, the Corporation utilized the State of Delaware's Master Lease program (as administered by Bank of America (BOA)) to purchase twelve forklifts for $307,669 using two loans. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates.

Interest expense incurred on this obligation was $8,009 and $8,829 during 2010 and 2009, respectively.

The future maturities of principal and interest payments on the BOA obligation are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 28,513	$ 7,164	$ 35,677
2012	29,385	6,292	35,677
2013	30,283	5,394	35,677
2014	31,209	4,468	35,677
2015	32,163	3,514	35,677
2016-2020	98,877	4,527	103,404
	$ 250,430	$ 31,359	$ 281,789

NOTE 9 CONTRIBUTED CAPITAL

Since its inception and for 2010 and 2009, the Corporation has received capital contributions from the State of Delaware and Federal grants as follows:

	Inception to Date	2010	2009
State of Delaware	$ 167,415,000	$ 2,000,000	$ 4,000,000
Federal	3,066,866	-	58,289
Total	$ 170,481,866	$ 2,000,000	$ 4,058,289

NOTE 10 PENSION PLAN AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS

Plan Description. The Diamond State Port Corporation Pension Plan (the Plan) is a single-employer defined benefit pension plan which covers all employees of the Corporation. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. A member may retire after completing five years of service and after reaching normal retirement age of sixty-five. Benefits fully vest after five years of credited service. Prior to 2007, benefits proportionately vested between between 5 and 10 years, fully vesting at 10 years. If an employee terminates his or her employment after at least five years of credited service but before normal retirement age, he or she may defer pension benefits until reaching retirement age. Employees who retire after reaching normal retirement age with at least five years of credited service are entitled to receive pension benefits equal to 1.75% of their final average monthly compensation multiplied by the years of credited service (not to exceed 30 years).

Disability benefits are generally the same as pension benefits; however, employees must have 15 years of credited service, subject to certain limitations. Survivors' benefits are generally equal to 50% of the pension benefit the employee would have received at age sixty-five if at least 15 years of credited service are obtained.

The Delaware Public Employees' Retirement System, which administers the Diamond State Port Corporation Pension Plan, issues a publicly available financial report, including financial statements and required supplementary information. The report may be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402, or by calling 1-800-722-7300.

The Corporation has adopted Governmental Accounting Standards Board Statement No. 27, Accounting for Pensions by State and Local Government Employers.

Funding Policy. Contribution requirements are determined by the State Board of Pension Trustees principally based on an actuarially determined rate. Plan members are required to contribute 2% of their compensation. Interest is credited at the rate of 7% per year.

Annual Pension Cost and Net Pension Obligation. The Corporation contributed 100% of its annual required contribution during the fiscal years 2010, 2009 and 2008. Accordingly, there was no net pension obligation as of June 30, 2010, 2009 and 2008. The annual pension cost was equal to the annual required contribution of $588,230 in 2010, $689,655 in 2009, and $714,341 in 2008.

PENSION PLAN AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS (Cont'd.)

The annual required contribution for the current year was determined as part of the June 30, 2009 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 4.75% which included an inflation component of 3.75%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 is 15 years.

The following provides an analysis of the funding progress of the Plan as of June 30, 2009, 2008, and 2007:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratios (1)/(2)	Annualized Covered Payroll	UAAL as a Percentage of Covered Payroll (3)/(5)
June 30, 2009	$14,353,400	$16,283,900	$ 1,930,500	88.1 %	$11,070,600	17.4 %
June 30, 2008	$13,390,700	$14,139,200	$ 748,500	94.7 %	$10,269,600	7.3 %
June 30, 2007	$11,911,400	$13,604,200	$ 1,692,800	87.6 %	$11,212,700	15.1 %

Other Postretirement Employee Benefits. Effective for fiscal year ending June 30, 2008, GASB statements 43 and 45 require the State of Delaware and its component units to account for other postretirement employee benefits. Retirees of the Corporation are permitted to enroll in the State of Delaware's health insurance plan in which employees pay the premiums in full on a monthly basis. The Corporation is not obligated to pay for medical costs in excess of premiums under the Plan. Therefore, the Corporation has not recorded a liability for other postretirement employee benefits in its financial statements.

NOTE 11 LEASE COMMITMENTS

The Corporation also leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was $381,486 and $314,012 for 2010 and 2009, respectively.

NOTE 12 RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries and illnesses to employees, and natural disasters. The Corporation has obtained commercial insurance to cover the risk of these losses with the exception of workers' compensation claims, where the Corporation is self-insured through the State of Delaware's self-insurance program. Settled claims have not exceeded the commercial insurance limits in any of the past five fiscal years. The Corporation was obligated to pay to the State's program a monthly charge equal to $1.90 and $1.75 per $100 of payroll which was $244,706 and $232,817 for the years ended June 30, 2010 and 2009, respectively.

NOTE 13 DEFERRED COMPENSATION PLAN

The Corporation offers all full-time employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until a future time. The employee may withdraw funds upon termination of the employment relationship with the Corporation, retirement, death, or unforeseeable financial hardship. The Corporation does not make contributions to the plan.

Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The Corporation has very little administrative involvement, performs no investing function, and has no fiduciary responsibility for this plan. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and are not subject to claims of the Corporation's creditors. Accordingly, these plan assets are not reported as a part of these financial statements.

NOTE 14 MAJOR CUSTOMERS

Two major customer groups of the Corporation accounted for approximately 28.7% and 20.9%, respectively, of operating revenues (49.6% total) for the year ended June 30, 2010. The same two customers accounted for approximately 25.8% and 27.6%, respectively, for the year ended June 30, 2009.

NOTE 15 COLLECTIVE BARGAINING

The Corporation employs two hundred sixty-three (263) full-time and part-time benefits eligible employees. Seventy-seven (77) full-time employees are represented by the International Longshoremen's Association - Local 1694-1, under a collective bargaining agreement ratified in August 2008 and is effective for the period October 1, 2007 through September 30, 2010. One hundred sixteen (116) part-time employees (only those working over 800 hours in a calendar year) are represented by the International Longshoremen's Association - Local 1694-1B, under the same collective bargaining agreement. Fifteen (15) full-time employees are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement. There are fifty-five (55) administrative employees not covered under collective bargaining agreements. The Corporation also employs a number of casual employees hired as needed on a daily basis to supplement the unionized work force that are not covered by a collective bargaining agreement.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Construction and Renovation Contracts. The Corporation has various contracts for construction and renovation of significant facilities located on its property at the Port in accordance with the Capital Budget approved by its Board of Directors. As of June 30, 2010 the Corporation had construction in progress of $10,880,919. Funding for capital projects has been received from operations, the State of Delaware and the U.S. Department of Homeland Security. As of June 30, 2010, the Corporation had $14,889,264 in cash and investments committed to capital projects (Note 4).

Environmental Contingencies. Under the provisions of the Port of Wilmington Acquisition Agreement dated September 1, 1995, the City retains responsibility for all liabilities under environmental laws that arise out of, or result from, any condition existing at the Port on or before, the agreement closing date, September 8, 1995.

On February 14, 2002, the Agreement was amended and in conjunction with the prepayment of the Port Deferred Payment Note, the Corporation agreed to assume responsibility for $2,000,000 of potential environmental liabilities. To date, no such liabilities have been identified.

Litigation and Claims. The Corporation is party to various claims and legal proceedings which normally occur in governmental and port operations. These claims and legal proceedings are not likely to have a material adverse impact on the Corporation. In addition, the Corporation currently has approximately $280,000 accrued for pending claims or threatened litigation for which unfavorable outcome is considered probable.

COMMITMENTS AND CONTINGENCIES (Cont'd.)

A major contractor had submitted billings and claims to the Corporation worth $14.6 million which the Corporation disputes as it does not consider them valid under the terms of the underlying contract. The Corporation was sued in the United States District Court for the District of Delaware by the contractor, who alleges that it has incurred additional costs in excess of $7,000,000, and its complaint seeks compensatory damages, punitive damages, and counsel fees and costs. The Corporation has responded by seeking dismissal of that litigation, and will contest the case vigorously. At this point, it is premature to offer any evaluation as to the likely outcome or range of potential loss, if any.

Also, a third-party complaint was filed against the Corporation by a consultant on the same project referenced in the preceding paragraph, seeking indemnification and contribution in conjunction with claims asserted against the design consultant by that same construction contractor. The Corporation has yet to respond to the complaint as of the date of this report, but it is anticipated that the Corporation will seek dismissal of that litigation, as well, and will contest the claims vigorously. It is also premature to offer any evaluation as to the likelihood of outcome or range of potential loss, if any, in conjunction with that litigation.

NOTE 17 SUBSEQUENT EVENTS

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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors and Management
of the Diamond State Port Corporation

We have audited the financial statements of the Diamond State Port Corporation as of and for the year ended June 30, 2010 and have issued our report thereon dated September 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Diamond State Port Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Diamond State Port Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Diamond State Port Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Diamond State Port Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Diamond State Port Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Diamond State Port Corporation's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

To the Board of Directors and Management
of the Diamond State Port Corporation
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Diamond State Port Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Diamond State Port Corporation'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of the Diamond State Port Corporation, the Office of Auditor of Accounts and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

McBride, Shopa & Co

Wilmington, Delaware
September 14, 2010