

Diamond State Port Corporation

(A Component Unit of the State of Delaware)

Financial Statements

(and Supplemental Information)

Years Ended June 30, 2012 and 2011

Issuance Date: October 9, 2012

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Table of Contents

Independent Auditors' Report	3 - 4
Management's Discussion and Analysis	5 - 11
Financial Statements	
Statements of Net Assets	12
Statements of Revenues, Expenses, and Changes in Net Assets	13
Statements of Cash Flows	14 - 15
Notes to Financial Statements	16 - 38
Required Supplemental Information	
Pension Funding Status and Progress	39
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40 - 41
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	42-43
Schedule of Expenditures of Federal Awards	44
Notes to the Schedule of Expenditures of Federal Awards	45
Schedule of Findings and Questioned Costs	46-47



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, 2012 and 2011, as listed in the table of contents. 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 consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2012 and 2011, 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 27, 2012 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and on 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.

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Independent Auditors' Report (Cont'd.)

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 through 11 and the Pension Funding Status and Progress on page 39 be presented to supplement the financial statements. Such 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BDO USA, LLP

Certified Public Accountants
September 27, 2012

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, 2012. 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, 2012 by \$152,982 (*net assets*). Included in this amount is \$134,970 invested in capital assets net of related debt; and restricted net assets of \$13,895 after providing for relevant liabilities for payments to capital projects vendors and for debt service payments. On June 30, 2011, the assets of the Port exceeded its liabilities \$154,505 (*net assets*). Included in this amount is \$135,502 invested in capital assets net of related debt; and restricted net assets of \$16,835.

- The Port's total net assets decreased by \$1,523 during FY 2012. The Port incurred a net loss of \$2,039 before Capital Contributions of \$516 from the Federal government for security projects. A comparable net loss for FY 2011 was \$3,815 before Capital Contributions. The Port's total net assets increased by \$6,366 during FY 2011 while incurring a net loss of \$3,815 before Capital Contributions and Special Item. A comparable net loss for FY 2010 was \$3,687. The Port received \$10,100 from the State of Delaware for capital projects and \$81 in donated materials and services from the Delaware Department of Transportation in FY 2011.

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: Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; Statements of Cash Flows; and Notes to the Financial Statements.

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

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 \$152,982 at the close of FY 2012. The comparable figure at the close of FY 2011 was \$154,505, \$148,139 at the close of FY 2010.

Port's Net Assets (\$ '000)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 22,602	\$ 22,795	\$ 19,394
Capital assets - net of accumulated depreciation	<u>163,315</u>	<u>166,485</u>	<u>164,195</u>
Total assets	<u>185,917</u>	<u>189,280</u>	<u>183,589</u>
Current liabilities	6,229	6,101	4,565
Long-term liabilities	26,706	28,674	30,885
Total liabilities	<u>32,935</u>	<u>34,775</u>	<u>35,450</u>
Net assets:			
Invested in capital assets, net of related debt	134,970	135,502	131,803
Restricted	13,895	16,835	14,889
Unrestricted	4,117	2,168	1,447
Total net assets	<u>\$ 152,982</u>	<u>\$ 154,505</u>	<u>\$ 148,139</u>

Investment in Capital assets (e.g., land, buildings, machinery, and equipment) constitute 88% of the Port's net assets less any related debt used to acquire those assets that is still outstanding. The decrease in net assets invested in Capital assets from \$135,502 in FY 2011 to \$134,970 in FY 2012 is mainly due to it being a lighter capital project year matched against typical depreciation expense. The increase in net assets invested in Capital assets from \$131,803 in FY 2010 to \$135,502 in FY 2011 is mainly due to significant infrastructure improvements and equipment purchases in the FY 2011 period.

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 \$516 in grants for security improvement projects received in FY 2012 from the Federal government. In FY 2011, grants for capital improvements were received from the State of Delaware. These asset values are reduced by expenditure and outstanding liabilities incurred while creating such restricted assets, usable only for payments for Capital projects. The balance of net assets - \$4,117 in FY 2012 and \$2,168 for FY 2011 - represents *unrestricted net assets* available for any Port related business use. The increase of \$1,949 from the unrestricted net assets of \$2,168 as of June 30, 2011, and the increase of \$721 from the unrestricted net assets of \$1,447 as of June 30, 2010, reflect an increase in current assets, as well as an increase in current liabilities, excluding current Notes Payable, of the Port during the FY 2012 and FY 2011 time periods, respectively, as shown in the Statements of Net Assets.

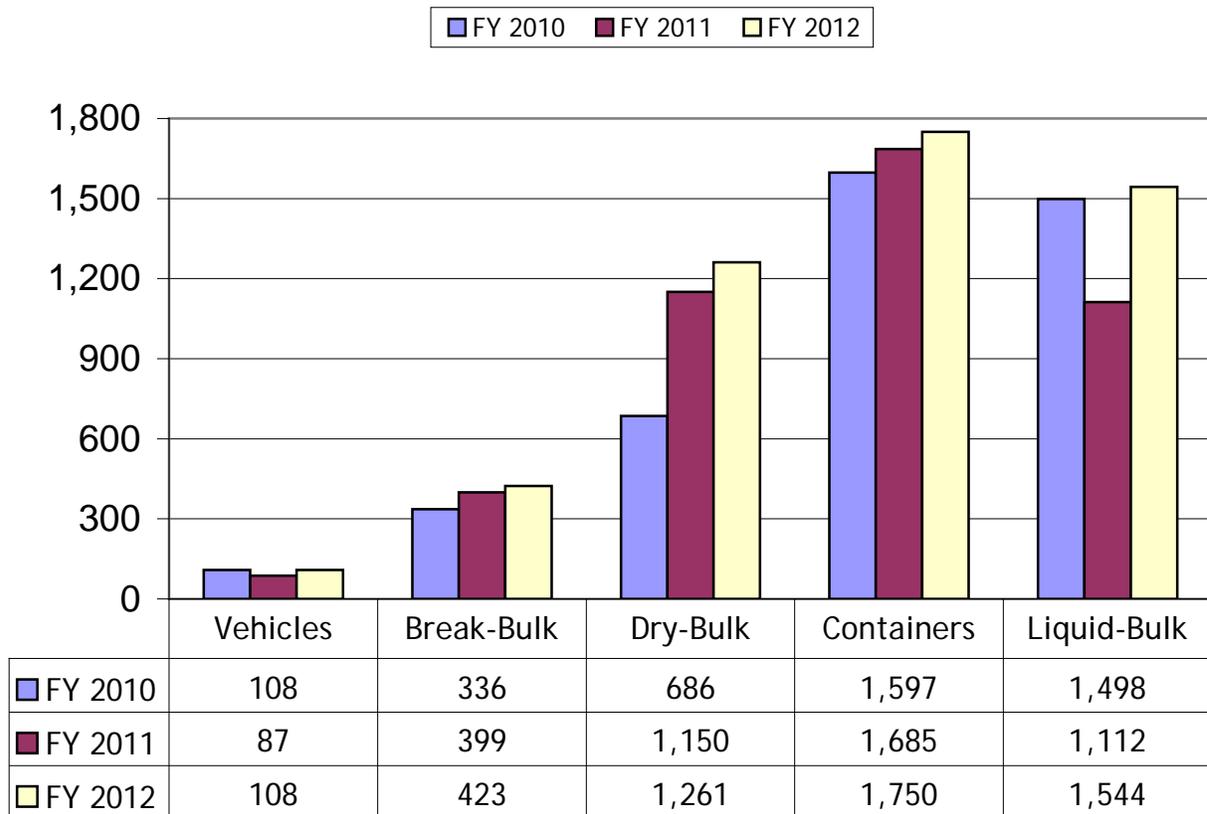
Port Activities. Port activities reduced the Port's net assets by \$2,039 during FY 2012, the value for the FY 2011 period was a reduction of \$3,815. Key elements of this change are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Cargo Handling	\$ 12,293	\$ 12,712	\$ 11,596
Dockage & Wharfage	8,987	8,179	6,715
Leasing, Storage & Equipment Rental	11,370	10,077	9,133
Other	1,315	922	759
Total Operating Revenues	<u>33,965</u>	<u>31,890</u>	<u>28,203</u>
Operating Expenses:			
Salaries, Wages & Benefits	18,755	18,727	16,907
Materials, Supplies & Services	10,536	10,171	8,590
Depreciation	5,537	5,460	5,265
Total Operating Expenses	<u>34,828</u>	<u>34,358</u>	<u>30,762</u>
Operating Loss:			
	(863)	(2,468)	(2,559)
Interest (Expense)	(1,182)	(1,349)	(1,262)
Interest Income	6	2	19
Insurance Recovery			115
Net Loss - before Capital Contributions:	<u>\$ (2,039)</u>	<u>\$ (3,815)</u>	<u>\$ (3,687)</u>

Cargo Tonnage:

A total of 5.1 million tons of cargo passed over the Port's facilities in FY 2012, compared to 4.4 million tons in FY 2011 and 4.2 million tons in FY 2010. This represents a 15% increase over the total tons handled in FY 2011. The change in FY 2011 was a 5% increase over the FY 2010 period.

Cargo Volume by groups ('000 short tons)



Vehicle tonnage growth rebounded slowly in FY 2012 within the weak global economy and corresponding tepid demand for exported vehicles. Break-Bulk volume growth over FY 2011 is due to increases in imported fresh fruit from Morocco and Argentina as well as livestock exports to Turkey and the Middle East; continuing the increase in cattle and Argentinian product growth that began in FY 2010. Dry-Bulk growth beginning with FY 2011 is attributable to expanded export Petrocoke volume from the restarted Delaware City PBF refinery. The increase in road salt volume in FY 2011 from FY 2010 did not occur in FY 2012.

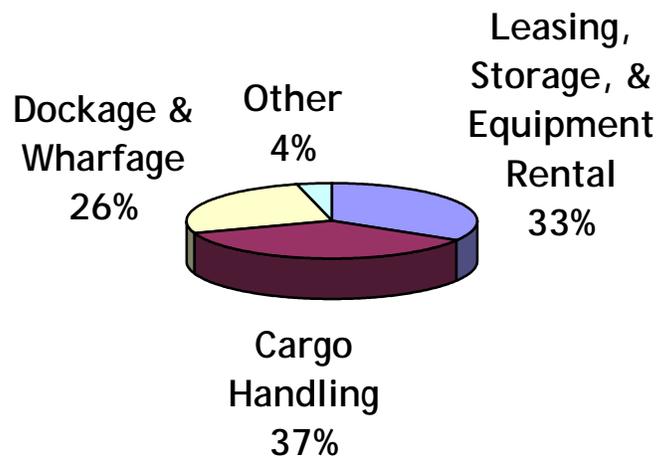
Northbound Container volume grows slowly as the typical 52 weekly vessel calls from customers and fixed vessel capacity is well established. Growth that began in FY 2010 continues for Southbound export volumes. Due to expanded capacity for liquid bulk cargoes, both juice concentrate and petroleum products enjoyed dramatic increases in volume in FY 2012.

Operating Revenue: (\$'000)

During FY 2012, the Port earned \$33,965 as operating revenue. This is an increase of \$2,075 or 7% from the operating revenue of \$31,890 earned in FY 2011. The FY 2011 period enjoyed an increase of 13% from the operating revenue of \$28,203 in FY 2010.

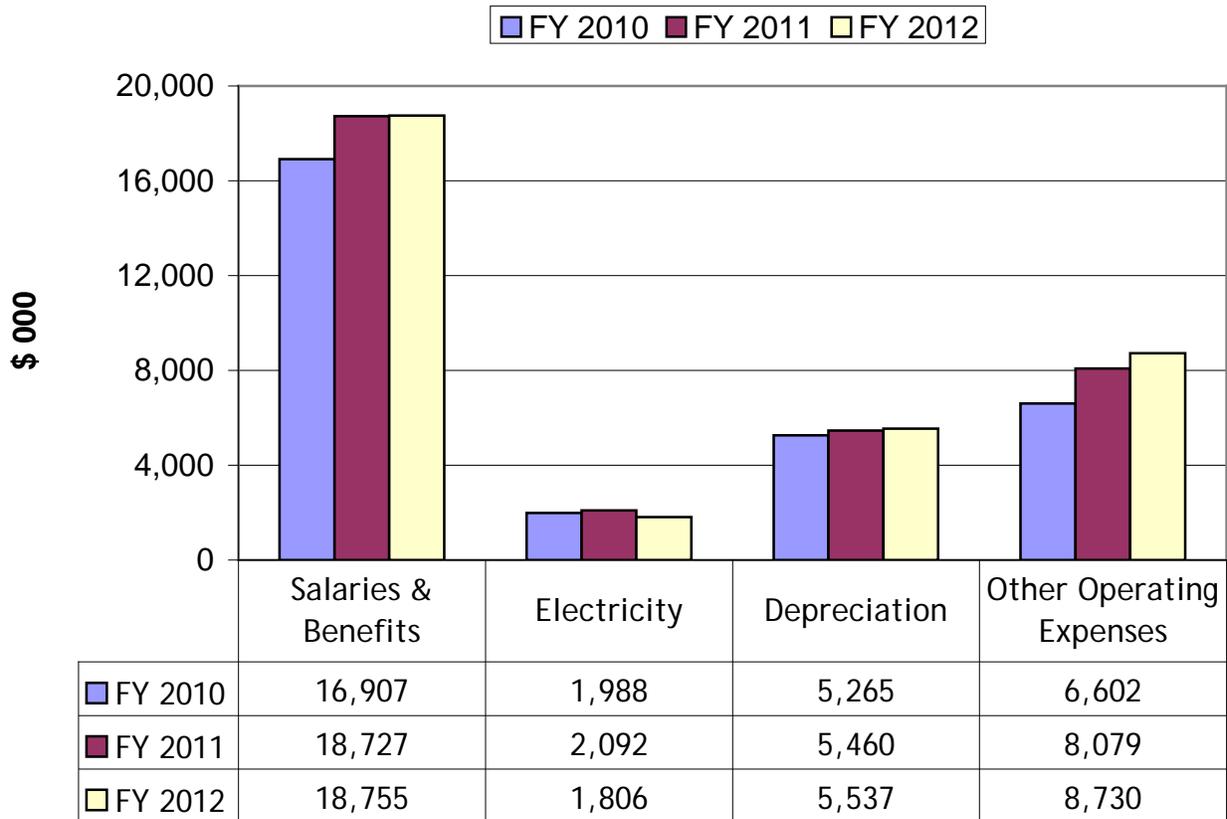
In FY 2012, dockage and wharfage revenue was \$800 favorably impacted by Dry-Bulk, container, and vehicle tonnage. Dry-Bulk volume growth also generated wharfage growth of \$500 from the FY 2010 to the FY 2011 period. Cargo Handling revenue is significantly impacted by the Break-Bulk product mix, this mix and other factors favorably increased cargo handling revenue in FY 2012 while decreasing it in FY 2011 compared to the prior year. Storage revenue from cargo stored at port facilities grew significantly by \$860 in FY 2012. Crane equipment rental growth increase also reflects a change in customer requirements that began in FY 2010.

Revenues by Source FY 2012



Operating Expenses: (\$'000)

Total operating expense of \$ 34,828 in FY 2012 is an increase of 1% from FY 2011. The FY 2011 value of \$ 34,358 was an increase of 12% over the FY 2010 value of \$ 30,762.



For FY 2012, Total Salaries and Benefit expense increased by \$28; increases in wage rates and pension expense were offset by fewer labor hours required. FY 2011 labor expense compared to the FY 2010 period experienced a significant increase in hours required for cargo handling as well as increases in medical premium expense. Electricity usage in FY 2012 was comparable to FY 2011, but favorable pricing reduced the annual expense by \$300.

Capital Asset and Debt Administration

Capital Assets: The Port’s investment in capital assets as of June 30, 2012, amounts to \$163,314 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, docks and wharves, and machinery and equipment. The net decrease in the Port’s investment in capital assets in the current fiscal year was \$3,171, comprised of capital asset additions and one more year of depreciation.

The Port's investment in capital assets as of June 30, 2011, amounted to \$166,485 (net of accumulated depreciation). The net increase in the Port's investment in capital assets in FY 2011 was \$2,290, comprised of capital asset additions and one more year of depreciation.

Capital acquisitions in FY 2012 consisted of vehicle purchases, crane upgrades, and facility repairs to warehouse floors and the floating berth. Major capital assets acquired during FY 2011 were the completion of Berth 4, the purchase of a mobile harbor crane, and building improvements.

		Capital Assets		
		(\$ '000)		
		2012	2011	2010
Land and Improvements	\$	36,502	\$ 36,473	\$ 36,473
Buildings		88,891	88,650	87,440
Docks & Wharves		58,736	58,595	46,155
Equipment		30,551	29,563	25,043
Streets and Utilities		5,592	5,592	5,590
Vehicles and other assets		8,860	8,671	8,511
	Sub total	<u>229,132</u>	<u>227,544</u>	<u>209,096</u>
Accumulated Depreciation		(66,771)	(61,242)	(55,782)
	Total	<u>162,361</u>	<u>166,302</u>	<u>153,314</u>
Construction in progress		953	183	10,881
	Total	<u>\$ 163,314</u>	<u>\$ 166,485</u>	<u>\$ 164,195</u>

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

Notes Payable: At the end of the current fiscal year, the Port had total Notes Payables outstanding of \$28,344. Of this amount, \$5,956 comprises debt to the City of Wilmington incurred at the time of the acquisition of the Port by the Diamond State Port Corporation from the City of Wilmington in 1995. The Delaware River and Bay Authority is owed \$2,955, as part of its financial participation in Warehouse H. The Transportation Trust Fund of the Delaware Department of Transportation (DeIDOT) is owed \$19,433 for funds borrowed in FY 2002.

By comparison; at the end of FY 2011, the Port had total Notes Payables outstanding of \$30,982. Of this amount, \$7,130 comprised debt to the City of Wilmington, The Delaware River and Bay Authority was owed \$3,170, DeIDOT's Transportation Trust fund was owed \$20,253. \$207 and \$222 were owed to Wilmington Trust and Bank of America respectively for the purchase of handling equipment, these last two loans were paid in full in December of 2011.

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

Financial Statements

Diamond State Port Corporation

Statements of Net Assets

<i>June 30,</i>	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,889,309	\$ 1,884,640
Accounts receivable - net	2,256,677	2,748,319
Grant receivable	80,240	-
Inventory	920,071	780,541
Prepaid expenses and other assets	561,354	547,125
Total Current Assets	8,707,651	5,960,625
Restricted Assets		
Investments	13,894,702	16,834,851
Capital Assets - Non-Depreciable	26,457,611	25,687,108
Capital Assets - Depreciable, net	136,856,726	140,797,918
Total Assets	\$ 185,916,690	\$ 189,280,502
Liabilities and Net Assets		
Current Liabilities		
Notes payable - current	\$ 1,638,292	\$ 2,308,485
Accounts payable	116,538	183,233
Accrued expenses	4,181,193	3,365,191
Accrued interest payable	170,680	182,103
Due to the State of Delaware - pension costs	80,078	62,054
Deferred revenue	42,350	-
Total Current Liabilities	6,229,131	6,101,066
Note Payable - Long-Term	26,705,966	28,674,195
Total Liabilities	32,935,097	34,775,261
Commitments and Contingencies		
Net Assets		
Invested in capital assets - net of related debt	134,970,079	135,502,346
Restricted		
Capital Improvement Fund	13,894,702	16,834,851
Unrestricted	4,116,812	2,168,044
Total Net Assets	152,981,593	154,505,241
Total Liabilities and Net Assets	\$ 185,916,690	\$ 189,280,502

See accompanying independent auditors' report and notes to financial statements.

Diamond State Port Corporation

Statements of Revenues, Expenses, and Changes in Net Assets

<i>Years Ended June 30,</i>	2012	2011
Operating Revenue		
Handling	\$ 12,293,171	\$ 12,711,800
Dockage and wharfage	8,987,716	8,179,451
Leasing, storage and equipment rental	11,369,824	10,077,174
Other operating revenue	1,314,616	921,958
	33,965,327	31,890,383
Operating Expenses		
Salaries and benefits	18,755,071	18,727,278
Materials, supplies and contractual services	10,536,661	10,170,766
Depreciation expense	5,536,629	5,460,262
	34,828,361	34,358,306
Operating Loss	(863,034)	(2,467,923)
Nonoperating Income (Expense)		
Interest expense	(1,181,827)	(1,349,314)
Interest income	5,409	2,622
	(1,176,418)	(1,346,692)
Net Loss Before Capital Contributions	(2,039,452)	(3,814,615)
Capital Contributions		
Federal grant	515,804	-
State Bond Bill	-	10,100,000
Donated materials and services - State of Delaware	-	80,786
	515,804	10,180,786
Change in Net Assets	(1,523,648)	6,366,171
Net Assets, beginning	154,505,241	148,139,070
Net Assets, ending	\$ 152,981,593	\$ 154,505,241

See accompanying independent auditors' report and notes to financial statements.

Diamond State Port Corporation

Statements of Cash Flows

<i>Years Ended June 30,</i>	2012	2011
Cash Flows From Operating Activities		
Cash received from customers and others	\$ 34,490,862	\$ 31,439,081
Cash payments to employees for services	(18,749,955)	(18,457,663)
Cash payments to suppliers for goods and services	(9,919,782)	(9,869,393)
Net cash provided by operating activities	5,821,125	3,112,025
Cash Flows From Investing Activities		
Sales of investments	3,414,326	10,655,798
Purchases of investment	(474,177)	(12,601,385)
Interest on cash and investments	5,441	2,604
Net cash provided (used) by investing activities	2,945,590	(1,942,983)
Cash Flows From Noncapital Financing Activities		
Acquisition and construction of capital assets	(30,605)	(41,231)
Net cash (used) by noncapital financing activities	(30,605)	(41,231)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,335,334)	(7,628,422)
Interest paid on loans	(1,183,867)	(1,277,216)
Principal paid on loans	(2,647,804)	(1,507,469)
Contributed capital	435,564	10,100,000
Net cash (used) by capital and related financing activities	(5,731,441)	(313,107)
Net Change in Cash and Cash Equivalents	3,004,669	814,704
Cash and Cash Equivalents, beginning of year	1,884,640	1,069,936
Cash and Cash Equivalents, end of year	\$ 4,889,309	\$ 1,884,640

Diamond State Port Corporation
Statements of Cash Flows

<i>Years Ended June 30,</i>	2012	2011
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (863,034)	\$ (2,467,923)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	5,536,629	5,460,262
Net change in the allowance for doubtful accounts	17,768	7,470
(Increase) decrease in:		
Accounts receivable	473,873	(580,246)
Inventory	(139,530)	(86,654)
Prepaid expenses and other assets	(14,262)	18,792
Increase (decrease) in:		
Accounts payable	(66,695)	23,622
Accrued expenses	816,002	737,754
Due to State of Delaware - pension costs	18,024	10,388
Deferred revenue	42,350	(11,440)
Net cash provided by operating activities	\$ 5,821,125	\$ 3,112,025
Supplemental Schedules of Noncash Capital and Related Financing Activities		
Accretion of deferred loss	\$ 9,383	\$ 98,028
Cost of fixed asset disposals	\$ 8,125	\$ -
In-kind contribution from DelDOT - fixed assets	\$ -	\$ 80,786

See accompanying independent auditors' report and notes to financial statements.

Diamond State Port Corporation

Notes to Financial Statements

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.

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

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Cash and Cash Equivalents

For purposes of the statements 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 \$76,541 and \$58,772 as of June 30, 2012 and 2011, respectively.

Inventory

Inventory consists of equipment parts, office supplies, and marketing materials. Inventory is stated at the lower of cost or market value determined using the first-in, first-out (FIFO) method.

Long-Term Investments

Long-term investments are stated at fair 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:

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

Revenues

The significant sources of operating 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.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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.

Capital Contributions

Capital contributions arise from State and Federal grants, generally restricted by the contributors to capital acquisition and construction. Most 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. The 2011 contribution from the State of Delaware of \$10.1 million included \$2.1 million that can be used temporarily for operating needs and later transferred back to the restricted account. During the year ended June 30, 2012, \$1 million of these funds was temporarily used for operations and has been subsequently repaid. All prior borrowings were repaid during the fiscal year of each drawdown and there is no balance to be transferred to the capital account as of the date of this report. The State also has provided contributions in the form of materials and services in the amounts of \$0 and \$80,786 for the fiscal years ended June 30, 2012 and 2011, respectively.

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 twice 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.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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.

3. Cash and Investments

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.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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/services/CMPBInvestmentGuidelines_2010-05.pdf

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, 2012 and 2011, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits 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 statements 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, 2012 and 2011, the bank balances of the Corporation's deposits were \$5,197,215 and \$2,185,225 respectively. Of the bank balances, the full non-interest bearing cash balance of \$5,197,215 was insured by the Federal Deposit Insurance Corporation (FDIC). Due to a temporary Federal program, all amounts in non-interest bearing accounts are fully insured through December 31, 2012.

Investments

Investments of the Corporation are reported at fair value based on quoted market prices.

4. Restricted Assets

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

<i>June 30,</i>	2012	2011
Capital improvements	\$ 13,894,702	\$ 16,834,851

Assets restricted for capital improvements consist of contributions from the State of Delaware. These assets are invested in a mutual funds account with a Moody's rating of Aaa.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

5. Capital Assets

Property and equipment activity during 2012 consisted of the following:

	2011	Additions	Retirements	Transfers	2012
Capital assets, non-depreciable					
Land	\$ 25,504,410	\$ -	\$ -	\$ -	\$ 25,504,410
Construction in progress	182,698	2,365,939	-	(1,595,436)	953,201
Total capital assets - non-depreciable	\$ 25,687,108	\$ 2,365,939	\$ -	\$ (1,595,436)	\$ 26,457,611
Capital assets, depreciable					
Land improvements	\$ 10,968,738	\$ -	\$ -	\$ 28,995	\$ 10,997,733
Buildings	88,650,151	-	-	240,595	88,890,746
Docks and wharves	58,594,588	-	-	141,440	58,736,028
Equipment	29,563,565	-	(8,125)	995,293	30,550,733
Streets and water utilities	5,592,378	-	-	-	5,592,378
Vehicles and other assets	8,670,686	-	-	189,113	8,859,799
Total capital assets, depreciable	202,040,106	-	(8,125)	1,595,436	203,627,417

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

	2011	Additions	Retirements	Transfers	2012
Less accumulated depreciation:					
Land improvements	7,552,573	518,599	-	-	8,071,172
Buildings	22,904,867	2,030,365	-	-	24,935,232
Docks and wharves	12,017,231	1,257,999	-	-	13,275,230
Equipment	9,560,716	1,234,096	(8,125)	-	10,786,687
Streets and water utilities	2,539,857	270,335	-	-	2,810,192
Vehicles and other assets	6,666,944	225,234	-	-	6,892,178
Total accumulated depreciation	61,242,188	5,536,628	(8,125)	-	66,770,691
Total capital assets, depreciable, net	\$ 140,797,918	\$ (5,536,628)	\$ -	\$ 1,595,436	\$ 136,856,726

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Property and equipment activity during 2011 consisted of the following:

	2010	Additions	Retirements	Transfers	2011
Capital assets, non-depreciable					
Land	\$ 25,504,410	\$ -	\$ -	\$ -	\$ 25,504,410
Construction in progress	10,880,919	7,932,507	-	(18,630,728)	182,698
Total capital assets - non-depreciable	\$ 36,385,329	\$ 7,932,507	\$ -	\$ (18,630,728)	\$ 25,687,108
Capital assets, depreciable					
Land improvements	\$ 10,852,482	\$ -	\$ -	\$ 116,256	\$ 10,968,738
Buildings	87,440,502	-	-	1,209,649	88,650,151
Docks and wharves	46,154,637	-	-	12,439,951	58,594,588
Equipment	25,043,271	-	-	4,520,294	29,563,565
Streets and water utilities	5,589,659	-	-	2,719	5,592,378
Vehicles and other assets	8,510,896	80,784	-	79,006	8,670,686
Total capital assets, depreciable	183,591,447	80,784	-	18,367,875	202,040,106

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

	2010	Additions	Retirements	Transfers	2011
Less accumulated depreciation:					
Land improvements	6,951,380	601,193	-	-	7,552,573
Buildings	20,874,968	2,029,899	-	-	22,904,867
Docks and wharves	10,852,636	1,164,595	-	-	12,017,231
Equipment	8,474,156	1,086,560	-	-	9,560,716
Streets and water utilities	2,267,504	272,353	-	-	2,539,857
Vehicles and other assets	6,361,282	305,662	-	-	6,666,944
Total accumulated depreciation	55,781,926	5,460,262	-	-	61,242,188
Total capital assets, depreciable, net	\$ 127,809,521	\$ (5,379,478)	\$ -	\$ 18,367,875	\$ 140,797,918

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Depreciation expense was \$5,536,629 and \$5,460,262 for 2012 and 2011, respectively.

Construction in progress was \$953,201 with additional contractually committed costs to complete the projects in process of approximately \$2,416,042 as of June 30, 2012.

6. Leasing Revenue

The Corporation leases certain Port terminal and storage space to tenants. Total rental income under these operating leases amounted to \$5,652,676 and \$5,518,826 for 2012 and 2011, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases with original lease terms in excess in one year as of June 30, 2012.

Years Ending June 30,

2013	\$	5,752,919
2014		5,762,300
2015		5,856,324
2016		6,043,431
2017		6,243,893
Thereafter		46,535,466
		<hr/>
	\$	76,194,333

7. Revolving Line of Credit

The Corporation has a \$3,000,000, unsecured, revolving line of credit from M & T Bank, none of which was outstanding at June 30, 2012 and 2011. Bank advances on the credit line are payable within 30 days of demand and carry an interest rate based on the bank's commercial rate index.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

8. Long-Term Debt

The following is a summary of debt transactions for the years ended June 30, 2012 and 2011.

	2012		
	Outstanding June 30, 2011	Payments and Other Reductions	Outstanding June 30, 2012
Transportation Trust Fund Note	\$ 20,253,326	\$ (820,567)	\$ 19,432,759
City of Wilmington Port Debt Service Notes	7,129,967	(1,173,282)	5,956,685
Delaware River and Bay Authority	3,170,165	(215,351)	2,954,814
Wilmington Trust Company	207,305	(207,305)	-
Bank of America - Master Lease	221,917	(221,917)	-
Total notes payable	30,982,680	\$ (2,638,422)	28,344,258
Notes payable - current	2,308,485		1,638,292
Notes payable - long-term	\$ 28,674,195		\$ 26,705,966
	2011		
	Outstanding June 30, 2010	Payments and Other Reductions	Outstanding June 30, 2011
Transportation Trust Fund Note	\$ 21,042,241	\$ (788,915)	\$ 20,253,326
City of Wilmington Port Debt Service Notes	7,453,677	(323,710)	7,129,967
Delaware River and Bay Authority	3,382,312	(212,147)	3,170,165
Wilmington Trust Company	263,461	(56,156)	207,305
Bank of America - Master Lease	250,430	(28,513)	221,917
Total notes payable	32,392,121	\$ (1,409,441)	30,982,680
Notes payable - current	1,507,469		2,308,485
Notes payable - long-term	\$ 30,884,652		\$ 28,674,195

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Interest charges during 2012 and 2011 were as follows:

	2012			
	Accrued Interest June 30, 2011	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2012
Transportation Trust Fund Note	\$ 67,342	\$ 804,445	\$ (807,173)	\$ 64,614
City of Wilmington Port Debt Service Notes	110,159	318,210	(329,690)	98,679
Delaware River and Bay Authority	3,963	49,500	(46,076)	7,387
Wilmington Trust Company	639	6,416	(7,055)	-
Bank of America - Master Lease	-	3,256	(3,256)	-
Total accrued interest	\$ 182,103	\$ 1,181,827	\$ (1,193,250)	\$ 170,680
	2011			
	Accrued Interest June 30, 2010	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2011
Transportation Trust Fund Note	\$ 69,965	\$ 836,202	\$ (838,825)	\$ 67,342
City of Wilmington Port Debt Service Notes	133,028	439,248	(462,117)	110,159
Delaware River and Bay Authority	4,228	49,015	(49,280)	3,963
Wilmington Trust Company	812	17,685	(17,858)	639
Bank of America - Master Lease	-	7,164	(7,164)	-
Total accrued interest	\$ 208,033	\$ 1,349,314	\$ (1,375,244)	\$ 182,103

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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 2012 and 2011. The loan matures March 2029.

Interest expense charged to operations during 2012 and 2011 was \$804,445 and \$836,202, respectively.

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

Fiscal Year	Principal	Interest	Total
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	960,395	667,346	1,627,741
2017	998,927	628,814	1,627,741
2018-2022	5,628,949	2,509,756	8,138,705
2023-2027	6,852,465	1,286,240	8,138,705
2028-2029	2,327,453	114,158	2,441,611
	<u>\$ 19,432,759</u>	<u>\$ 7,424,967</u>	<u>\$ 26,857,726</u>

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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, 2012 and 2011 was \$5,303 and \$10,383, 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, 2012 and 2011 was \$279,839 and \$284,142, respectively.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, for which the Corporation has correlating notes with the City. The impact was 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.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Total deferred loss balance as of June 30, 2012 and 2011 was \$285,142 and \$294,525, respectively. The amortization of deferred loss of \$9,383 and \$98,028 during 2012 and 2011, respectively, is charged to interest expense.

Principal and interest payments made on the note were \$1,182,665 and \$320,307, respectively, during 2012, and \$421,738 and \$364,089, respectively, during 2011.

Interest expense on the note in 2012 and 2011 was \$318,210 and \$439,248, respectively.

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

Fiscal Year	Principal	Interest	Total
2013	\$ 609,625	\$ 290,783	\$ 900,408
2014	660,957	264,347	925,304
2015	701,468	232,697	934,165
2016	741,713	195,008	936,721
2017	683,008	157,052	840,060
2018-2022	2,304,734	475,491	2,780,225
2023-2027	540,322	13,507	553,829
	6,241,827	1,628,885	7,870,712
Deferred loss on refunding	(285,142)	-	(285,142)
Total	\$ 5,956,685	\$ 1,628,885	\$ 7,585,570

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 \$49,500 and \$49,015 in 2012 and 2011, respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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

Fiscal Year	Principal	Interest	Total
2013	\$ 175,178	\$ 86,249	\$ 261,427
2014	180,506	80,921	261,427
2015	185,997	75,430	261,427
2016	191,654	69,773	261,427
2017	197,483	63,944	261,427
2018-2022	878,481	428,653	1,307,134
2023-2027	1,145,515	161,622	1,307,137
	<u>\$ 2,954,814</u>	<u>\$ 966,592</u>	<u>\$ 3,921,406</u>

Wilmington Trust Company Loan

The Corporation entered into a loan agreement with the Wilmington Trust Company (now M&T Bank) on August 17, 2007 for \$401,973 to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to M&T of \$6,168 began on September 17, 2007. The loan was for seven years, and the interest rate is 7.40%. The loan was repaid early, in December 2011.

Interest expense incurred on this obligation was \$6,416 and \$17,685 during 2012 and 2011, respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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. The obligation was repaid early, in December 2011.

Interest expense incurred on this obligation was \$3,256 and \$7,164 during 2012 and 2011, respectively.

9. Contributed Capital

Since its inception and for 2012 and 2011, the Corporation has received capital contributions from the State of Delaware and Federal grants as follows:

	Inception to Date	2012	2011
State of Delaware	\$ 177,515,000	\$ -	\$ 10,100,000
Federal	3,582,670	515,804	-
Total	\$ 181,097,670	\$ 515,804	\$ 10,100,000

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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 eligible 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. 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). Final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the past ten years of employment.

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.

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 2012 and 2011. Accordingly, there was no net pension obligation as of June 30, 2012, and 2011. The annual pension cost was equal to the annual required contribution of \$815,199 in 2012 and \$725,309 in 2011.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

The annual required contribution for the current year was determined as part of the June 30, 2011 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 7.5% investment rate of return and (b) projected salary increases of 4.25% which included an inflation component of 3.25%. 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, 2012 is 15 years.

The schedule of funding progress presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following provides an analysis of the funding progress of the Plan as of June 30, 2011, the most recent valuation date.

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2-1)	Funded Ratios (1/2)	Annualized Covered Payroll (5)	UAAL as a Percentage of Covered Payroll ((2-1)/5)
June 30, 2011	\$17,197,500	\$20,631,700	\$ 3,434,200	83.4 %	\$11,150,200	30.8 %

Other Postretirement Employee Benefits

Retirees of the Corporation are permitted to enroll in the State of Delaware's health insurance plan in which they 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.

11. Lease Commitments

The Corporation leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was \$483,896 and \$551,026 for 2012 and 2011, respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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 \$1.95 and \$1.95 per \$100 of payroll which was \$273,662 and \$271,038 for the years ended June 30, 2012 and 2011, respectively.

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.

14. Major Customers

Two major customer groups of the Corporation accounted for approximately 22.7% and 21.8%, respectively, of operating revenues (44.5% total) for the year ended June 30, 2012. The same two customer groups accounted for approximately 24.8% and 19.1%, respectively, for the year ended June 30, 2011.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

15. Collective Bargaining

The Corporation employs two hundred forty-five (245) full-time and part-time benefits eligible employees. Seventy-eight (78) full-time employees are represented by the International Longshoremen's Association (ILA) - Local 1694-1. The most recent collective bargaining agreement was ratified in March 2012 for the period October 1, 2010 through September 30, 2013. Ninety-nine (99) part-time employees (only those working over 800 hours in a calendar year) are also represented by the International Longshoremen's Association, 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. Negotiations for a new collective bargaining agreement were ongoing as of the report date. There are fifty-three (53) 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.

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, 2012 the Corporation had construction in progress of \$953,201. 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, 2012, the Corporation had \$13,894,702 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. In the opinion of management, the outcome of these cases will not have a material effect on the Corporation's financial condition or results of operations. In addition, the Corporation currently has approximately \$225,525 accrued for pending claims or threatened litigation for which unfavorable outcome is considered probable.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

On July 28, 2010, the Port was sued in the United States District Court by its construction contractor on a project involving the rehabilitation and reconstruction of Berth 4. The contractor alleges that it has incurred additional costs and it seeks an unspecified amount of compensatory damages costs. The Corporation responded by seeking dismissal of that litigation, and is contesting 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.

In August 2010, 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 is also contesting the claims in that litigation vigorously. It also would be premature to offer any evaluation as to the likelihood of outcome or range of potential loss, if any, in conjunction with that litigation.

Public-Private Partnership for Capital Investment and Terminal Asset Concession

The Corporation is looking for one or more private-sector partners to bring additional capital investment into the Port of Wilmington through partnerships in specific capital projects or through long-term operating agreements. This Public-Private Partnership would allow a private-sector partner to maintain and enlarge some or all of the existing Port facilities and business, furthering the Corporation's mission. The Corporation issued a Request for Information to potential partners in October, 2011. It has received responses to this Request and is reviewing various proposals.

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.

See accompanying independent auditors' report.

Required Supplemental Information

Diamond State Port Corporation
Pension Funding Status and Progress

The following provides an analysis of the funding progress of the Plan as of June 30, 2011, 2010, and 2009:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2-1)	Funded Ratios (1/2)	Annualized Covered Payroll (5)	UAAL as a Percentage of Covered Payroll ((2-1)/5)
June 30, 2011	\$17,197,500	\$20,631,700	\$ 3,434,200	83.4 %	\$11,150,200	30.8 %
June 30, 2010	\$15,418,000	\$18,354,000	\$ 2,936,000	84.0 %	\$11,224,000	26.2 %
June 30, 2009	\$14,353,400	\$16,283,900	\$ 1,930,500	88.1 %	\$11,070,600	17.4 %



Tel: 302-656-5500
Fax: 302-656-8024
www.bdo.com

270 Presidential Drive
Wilmington, DE 19807

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

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited the financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, as of and for the year ended June 30, 2012 and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Diamond State Port Corporation is responsible for establishing and maintaining effective 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 opinion 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 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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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.

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

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*.

We noted certain matters that we reported to management of the Diamond State Port Corporation in a separate letter dated September 27, 2012.

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

BDO USA, LLP

Certified Public Accountants
September 27, 2012



Tel: 302-656-5500
Fax: 302-656-8024
www.bdo.com

270 Presidential Drive
Wilmington, DE 19807

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

Compliance

We have audited Diamond State Port Corporation compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Diamond State Port Corporation's major federal program for the year ended June 30, 2012. The Diamond State Port Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Diamond State Port Corporation's management. Our responsibility is to express an opinion on the Diamond State Port Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Diamond State Port Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Diamond State Port Corporation's compliance with those requirements.

In our opinion, the Diamond State Port Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (Cont'd.)

Internal Control Over Compliance

Management of the Diamond State Port Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Diamond State Port Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Diamond State Port Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

BDO USA, LLP

Certified Public Accountants
September 27, 2012

Diamond State Port Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Project Code	Federal CFDA Number	Passthrough Entity Identifying Number	Grant Period	Expenditures Total
United States Department of Homeland Security Passed through the Maritime Exchange for the Delaware River and Bay Port Security Grant Program	2010-PO-T0-K007	97.056	2010-PU-T0-K007	01/11 - 10/14	\$ 515,804
Total Expenditures of Federal Awards					\$ 515,804

Diamond State Port Corporation

Notes to the Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Diamond State Port Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Diamond State Port Corporation
Schedule of Findings and Questioned Costs

Section I. **Summary of Auditors' Results**

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors report issued? | Unqualified |
| 2. Internal control over financial reporting: | |
| Material weaknesses indentified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|-------------|
| 4. Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 5. Type of auditors report issues on compliance for major programs? | Unqualified |
| 6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |

Diamond State Port Corporation

Schedule of Findings and Questioned Costs

Section I. Summary of Auditors' Results (cont'd.)

7. Identification of Major Programs:

<u>CFDA/Contract Number</u>	<u>Name of Federal Program or Cluster</u>
97.056/2010-PU-TO-K007	U.S. Department of Homeland Security - Port Security Grant Program

8. The dollar threshold used for distinguishing Type A programs \$300,000

9. Auditee qualified as a low-risk auditee? No

Section II. Financial Statement Findings

None

Section III. Federal Award Findings and Questioned Costs

None