State of Delaware
Diamond State Port Corporation

(A Component Unit of the State of Delaware)

Financial Statements

Years Ended June 30, 2016 and 2015

Report Issued: September 29, 2016

State of Delaware
Diamond State Port Corporation

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Right, By Your Side

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Diamond State Port Corporation (the Corporation), as of and for the Fiscal Years Ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

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Board of Directors

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle Resulting from the Adoption of a New Accounting Pronouncement

As discussed in Note 2(l) to the financial statements, in Fiscal Year 2016, the Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. In Fiscal Year 2015, the Corporation adopted the provisions of GASB Statements No. 68, *Accounting and Financial Reporting for Pensions,* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, the *Schedule of Changes in Net Pension Liability and Related Ratios*, and the *Schedule of Contributions* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other information, such as the introductory and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation’s internal control over financial reporting and compliance.

Santora CPA Group

September 14, 2016
Newark, Delaware

As management of the Diamond State Port Corporation (the Corporation), we offer readers of the Corporation's basic financial statements this narrative overview and analysis of the financial activities of the Corporation for the Fiscal Years Ended June 30, 2016 and 2015. 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 Corporation exceeded its liabilities at June 30, 2016 by $194,031 (net position), as compared to $177,472 at June 30, 2015 and $169,843 at June 30, 2014. Included in this amount at June 30, 2016 are net investment in capital assets of $166,365 and restricted net position of $20,754, after providing for relevant liabilities for payments to capital projects vendors and for debt service payments. Included in this amount at June 30, 2015 are net investment in capital assets of $146,434 and restricted net position of $25,476, after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.

- The Corporation's total net position increased by $16,559 during Fiscal Year 2016. The Corporation incurred net revenue of ($2,489) before capital appropriations of $16,311 from the State of Delaware (the State) and $2,737 from the Federal Transportation Investment Generating Economic Recovery (Tiger) Grant. Comparable net position changes for Fiscal Year 2015 were $1,250, offset by prior year adjustments of $4,053 due to GASB No. 68 and ($4,427) for Fiscal Year 2014 before capital contributions.

- The adoption of GASB No. 68 requires additional disclosure of pension information. The implementation of GASB 68 along with GASB 71 in Fiscal Year 2015 and going forward affects all three financial statements: Net Position; Revenues, Expenses, and Changes in Net Position; and Cash Flows. For this MD&A, this information is reported under Deferred Outflows of Resources and in the Long-Term Liability and Deferred Inflow of Resources sections of the Corporation's Statement of Net Position. On the Corporation's Statements of Revenues, Expenses, and Changes in Net Position, a pension expense and a pension adjustment are shown under Operating Expenses along with a net prior year adjustment in Fiscal Year 2015.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of four components: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; Statements of Cash Flows; and Notes to Financial Statements.

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

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Corporation'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 present information showing the Corporation's cash receipts and payments during the fiscal period classified by principal sources and uses segregated into key elements.

Notes to Financial Statements 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 Corporation 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 GASB. The Corporation is a component unit of the State. 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.

Financial Analysis

As noted earlier, Net Position, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Corporation. The Corporation's assets exceeded liabilities by $194,031 at the close of Fiscal Year 2016; $177,472 at the close of Fiscal Year 2015; and $169,843 at the close of Fiscal Year 2014.

Corporation's Net Position

(Expressed in Thousands)

	FY 2016	FY 2015	FY 2014
Current and restricted assets	$ 34,592	$ 37,984	$ 36,172
Capital assets – net of accumulated depreciation	187,789	169,835	164,968
Total Assets	222,381	207,819	201,140
Deferred outflows of resources			
Refunding of debt	180	207	232
Pension contributions	1,203	1,046	-
Pension plan experience differences	1,169	-	-
Total Deferred Outflows	2,552	1,253	232
Current liabilities	5,293	5,209	7,811
Notes payable – net of current portion	19,678	21,557	23,451
Net pension liability	5,351	3,003	-
Total Liabilities	30,322	29,769	31,262
Deferred inflows of resources			
Refunding of debt	46	157	267
Pension plan investment return difference	533	1,674	-
Total Deferred Inflows	579	1,831	267
Net Position:			
Net investment in capital assets	166,365	146,434	139,671
Restricted – capital improvement fund	20,754	25,476	25,695
Unrestricted	6,912	5,562	4,477
Total Net Position	$194,031	$177,472	$169,843

The increase in capital assets, net, from $169,835 in Fiscal Year 2015 to $187,789 in Fiscal Year 2016 is a result of new capital expenditures of $23,943 during the Fiscal Year offset by depreciation expense of $5,989. New capital expenditures for Fiscal Year 2016 were due to payments on two new gantry cranes, Berth 5 construction, vehicles and equipment, and improvements to existing infrastructure. The increase in capital assets, net, from $164,968 in Fiscal Year 2014 to $169,835 in Fiscal Year 2015 was a result of new capital expenditures of $10,644 during the Fiscal Year offset by depreciation expense of $5,765 and net retirements of $12. New capital expenditures for Fiscal Year 2015 included the initial payments on two new gantry cranes, new hopper, vehicles and equipment, and improvements to existing cranes. The decrease in capital assets from $166,938 in Fiscal Year 2013 to $164,968 in Fiscal Year 2014 was a result of new capital expenditures of $3,745 during the Fiscal Year as offset by depreciation expense of $5,715. Capital assets are used to provide required services to the Corporation's customers and tenants; therefore, these assets are *not* available for future spending. The Corporation's net investment in 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.

Net investment in capital assets (e.g., land, buildings, machinery, and equipment) constitutes 86% of the Corporation's net position less any related outstanding debt used to acquire those assets. A certain amount of the Corporation's net position represents resources that are subject to external restrictions on how they may be used. For Fiscal Year 2016, the value of these restricted assets includes grants of $16,311 from the State and $2,737 from the TIGER grant for infrastructure improvement to Berth 5, reduced by expenditure and outstanding liabilities incurred. For Fiscal Year 2015, the value of these restricted assets include $10,250 from the State and $182 from the TIGER grant for infrastructure improvement to Berth 5, reduced by expenditure and outstanding liabilities incurred. For Fiscal Year 2014, the value of these restricted assets include $11,345 from the State, as reduced by expenditure and outstanding liabilities incurred. The restricted assets are to be used only for payments of capital projects.

The balance of net position, $6,912, $5,562, and $4,477 as of June 30, 2016, 2015, and 2014, respectively, represents *unrestricted net position* available for any Corporation-related business use. As disclosed on the Statements of Net Position, the increase of $1,350 from the unrestricted net position of $5,562 as of June 30, 2015 reflects an increase in total current assets, less the increase in current liabilities, excluding the current portion of notes payable, plus the changes in: pension contributions, pension plan experience differences, and pension plan investment return differences, less the change in net pension liability. The increase of $1,085 to $5,562 as of June 30, 2015 from the unrestricted net position of $4,477 as of June 30, 2014 reflects an increase in total current assets, as well as a decrease in current liabilities excluding the current portion of notes payable, plus the pension contributions, less both the net pension liability and pension plan investment returns difference.

Corporation Activities. Corporation activities decreased the net position by $2,489 during Fiscal Year 2016, increased by $1,250 during Fiscal Year 2015, and decreased by $4,427 during Fiscal Year 2014. Key elements of this change are as follows:

Corporation Activities

(Expressed in Thousands)

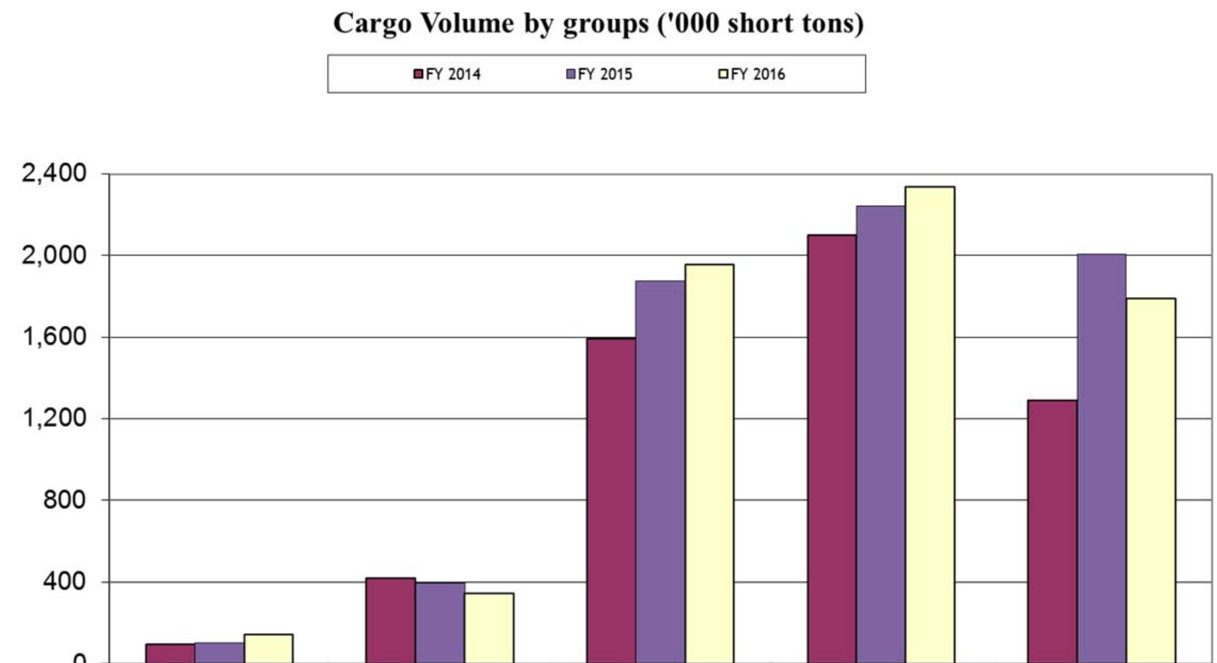
	FY 2016	FY 2015	FY 2014
Operating revenues			
Cargo handling	$14,383	$14,613	$13,219
Leasing, storage, and equipment rental	12,093	11,506	11,665
Dockage and wharfage	10,550	10,102	9,879
Storm water settlement	-	2,873	-
Other operating revenue	1,392	1,335	1,166
Total operating revenues	38,418	40,429	35,929
Operating expenses			
Salaries and related benefits	23,515	22,037	21,326
Pension expense	1,085	624	-
Pension contributions	(1,202)	(1,046)	-
Materials, supplies, and contractual services	10,745	10,945	12,403
Depreciation	5,989	5,765	5,715
Total operating expenses	40,132	38,325	39,444
Operating income (loss)	(1,714)	2,104	(3,515)
Nonoperating income (expense)			
Interest expense	(836)	(916)	(934)
Interest income	61	74	22
Loss on retirements of assets	-	(12)	-
Total nonoperating expense	(775)	(854)	(912)
Net gain (loss) before capital contributions	$(2,489)	$ 1,250	$ (4,427)

Settlement of the storm water litigation with the City of Wilmington (the City) in April 2015, resulted in the reversal of a total of $2.9 million in prior year's accrued expenses and is depicted as operating revenue in the Fiscal Year 2015 Statement of Revenues, Expenses, and Changes in Net Position and is an addition to EBITDA.

As part of GASB Nos. 68 and 71, pension expense and pension contributions offset operating expenses by $117 in Fiscal Year 2016 and by $422 in Fiscal Year 2015.

Cargo Tonnage

A total of 6.56 million tons of cargo passed over the Corporation's facilities in Fiscal Year 2016, a small decrease of 0.9% over the 6.62 million tons handled in Fiscal Year 2015, which itself was an increase of 20.4% over the 5.50 million tons handled in Fiscal Year 2014.



	Vehicles	Break-Bulk	Dry-Bulk	Containers	Liquid-Bulk
FY 2014	97	420	1,592	2,102	1,289
FY 2015	101	395	1,873	2,244	2,008
FY 2016	141	343	1,954	2,337	1,789

For Fiscal Year 2016, vehicle volumes increased 40% over the prior year due to the Fiat-Chrysler contract. Break-Bulk volume was lower than the prior year by 13%. Wet weather in Chile caused a three week delay in the arrival of Chilean fruit, and the discovery of Mediterranean fruit fly larvae in Philadelphia caused a premature end to Moroccan cargo imports. Dry-Bulk tonnages finished 81,000 tons over the prior year. The increase in Petrolcoke shipments was offset by a decrease in road salt and sand imports. Containers exceeded the prior year by 93,000 tons as both Dole and Chiquita added extra vessels to their weekly schedules during the final quarter of the Fiscal Year. Liquid-Bulk tonnage was lower than the prior year primarily due to decreased Petroleum imports.

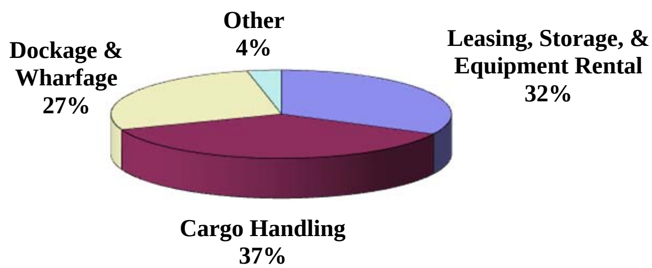
For Fiscal Year 2015, vehicle volumes rebounded slightly due to a new contract with Fiat-Chrysler. Break-Bulk volume was reduced over Fiscal Year 2014 due to bad weather adversely affecting imported fruit from Morocco and Argentina. Dry-Bulk volume increased dramatically because of high demand for various salt imports and Petrolcoke exports. Containerized tropical fruit volume grew mainly to higher southbound cargo. A vast increase in liquid petroleum volume (58%) had a favorable impact on Liquid-Bulk tonnage.

Operating Revenue

During Fiscal Year 2016, the Corporation earned $38,418 in operating revenue. This is an increase of $862 or 2.3% from the operating revenue of $37,556 earned in Fiscal Year 2015 (excluding the $2,873 in operating revenue related to the settlement of the storm water litigation with the City).

Cargo Handling, Dockage, and Wharfage revenue was $218 higher as a result of increases in Dry-Bulk, Container handling, and Vehicle exports.

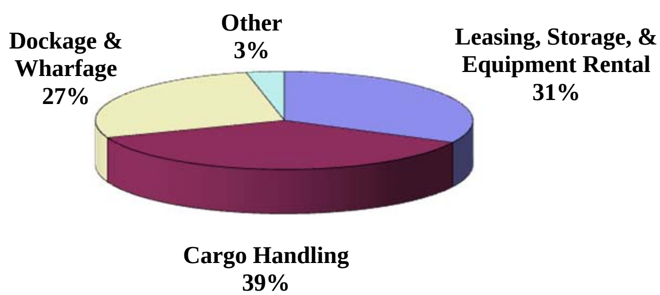
Revenues by Source FY 2016



During Fiscal Year 2015, the Corporation earned $37,556 in operating revenue (excluding the $2,873 in operating revenue related to the settlement of the storm water litigation with the City). This is an increase of $1,627 or 4.5% from the operating revenue of $35,929 earned in Fiscal Year 2014.

Cargo Handling, Dockage, and Wharfage revenue was $1,617 higher as a result of an increase in Chilean fruit, Container handling, Dry-Bulk, and Liquid-Bulk.

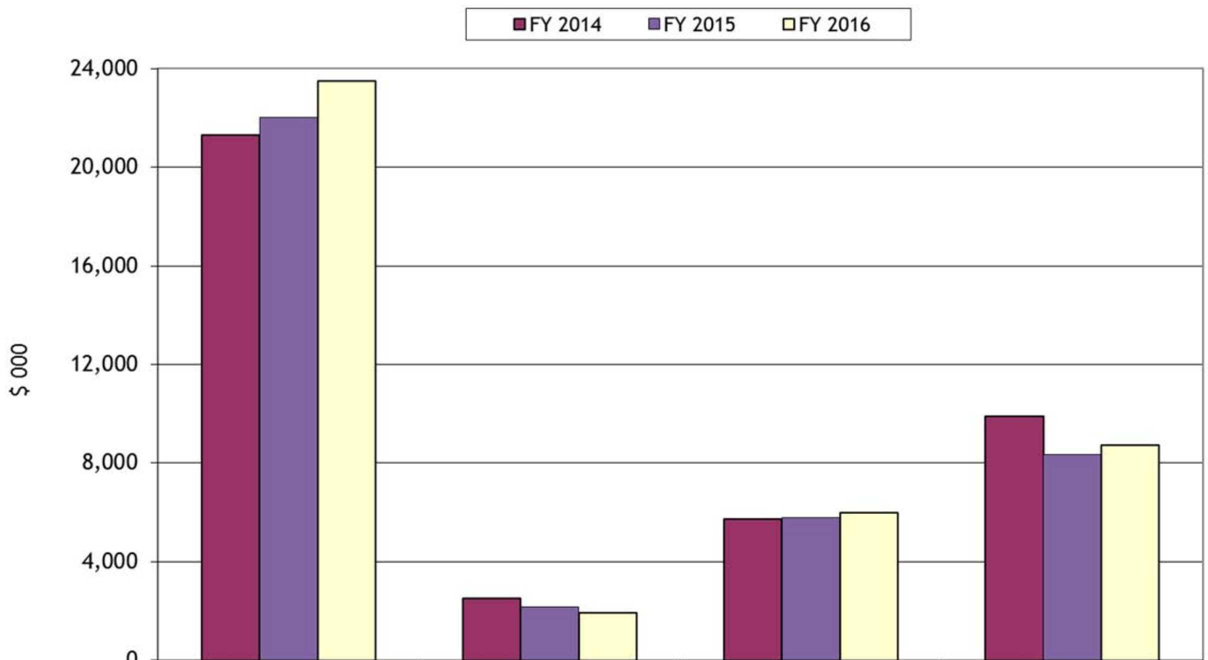
Revenues by Source FY 2015 *



** For comparative purposes, the revenue chart above excludes the storm water settlement.*

Operating Expenses

Total operating expenses of $40,132 in Fiscal Year 2016 is an increase of 4.7% from Fiscal Year 2015.



	Salaries & Benefits	Electricity	Depreciation	Other Operating Expenses
FY 2014	21,326	2,509	5,715	9,894
FY 2015	22,037	2,177	5,765	8,346
FY 2016	23,515	1,920	5,989	8,708

For Fiscal Year 2016, total Salaries and Benefits expense increased $1,478 over the prior year mainly due to construction of Berth 5 impacting backhaul productivity and health insurance costs increasing 21%. Electricity expense decreased $257 due to lower consumption and lower energy prices. Other Operating Expenses increased by a total of $362.

In Fiscal Year 2015, total Salaries and Benefits expense shown is $712 higher due to the increase in labor hours required to move the higher volume of cargo. Electricity expense decreased due to lower consumption and better rates. Other Operating Expenses decreased by $1,127: dredging expense decreased by $169 due to a longer period between dredges; professional fees and services, including methyl bromide testing declined by $321; water and sewer expense decreased by $585 as a result of the storm water litigation settlement (see Note 16); and fuel costs decreased by $157 as a result of lower prices.

In Fiscal Year 2014, total Salaries and Benefits expense increased by $1,220 mainly due to increases in labor hours required. Electricity expense increased due to a new summer fruit program requiring additional refrigeration, and higher prices. As included in Other Operating Expenses, dredging expense increased by $200 due to additional dredging required. In addition, professional fees declined by $700 as a result of the settlement of the lawsuit regarding Berth 4 in July 2013. Fuel costs increased by $222 as a result of increased crane usage and higher prices.

Capital Asset and Debt Administration

Capital Assets: The Corporation's total investment in capital assets as of June 30, 2016, 2015, and 2014 amounts to $187,789, $169,835, and $164,968, (net of accumulated depreciation), respectively. These capital assets include land and improvements, buildings, docks and wharves, and machinery and equipment. The net increase in the Corporation's investment in capital assets in Fiscal Year 2016 was $17,954, comprised of an increase in capital asset additions as offset by one more year of depreciation and retirements. The net increase in the Corporation's investment in capital assets in Fiscal Year 2015 was $4,867, comprised of an increase in capital asset additions as offset by one more year of depreciation. The net decrease in the Corporation's investment in capital assets in Fiscal Year 2014 was $1,970 comprised of a modest increase in capital asset additions and one more year of depreciation.

Capital investments in Fiscal Year 2016 consisted of continued rehabilitation of Berth 5, additional payments on two new gantry cranes, as well as warehouse and facility renovations and equipment purchases. Capital investments in Fiscal Year 2015 consisted of initial payments on two new gantry cranes, as well as renovations to existing cranes, equipment purchases, and warehouse and facility upgrades. Capital investments in Fiscal Year 2014 consisted of rehabilitation of Berth 5, installation of a new C4 crane drive system, equipment purchases, and warehouse and facility upgrades.

Capital Assets
(Expressed in Thousands)

		2016	2015	2014
Land and improvements		$ 38,022	$ 37,999	$ 37,551
Buildings		92,665	90,827	89,601
Docks and wharves		63,889	63,867	63,524
Equipment		38,460	34,504	33,308
Streets and utilities		5,978	5,953	5,953
Vehicles and other assets		12,543	11,323	11,238
	Subtotal	251,557	244,473	241,175
Accumulated depreciation		(89,626)	(83,636)	(77,940)
	Totals	161,931	160,837	163,235
Construction in Progress		25,858	8,998	1,733
	Totals	$ 187,789	$ 169,835	$ 164,968

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

Note Payable: At the end of the current Fiscal Year, the Corporation had notes payable outstanding of $21,557, including the current portion of $1,879. Of this amount, $3,528 comprises outstanding debt to the City incurred at the time of the acquisition of the Port of Wilmington (the Port) by the Corporation from the City in 1995. The Delaware River and Bay Authority (DRBA) was owed $2,221 as part of its financial participation in Warehouse H. The Transportation Trust Fund of the Delaware Department of Transportation (DelDOT) was owed $15,808 for funds borrowed in Fiscal Year 2002. Additional information is available in Note 8 of the Notes to Financial Statements.

As of June 30, 2015, the Corporation had notes payable outstanding of $23,451, including the current portion of $1,894. Of this amount, $4,270 comprises outstanding debt to the City, the DRBA was owed $2,413, and DelDOT's Transportation Trust Fund was owed $16,768.

As of June 30, 2014, the Corporation had notes payable outstanding of $25,297, including the current portion of $1,811. Of this amount, $5,006 comprises outstanding debt to the City, the DRBA was owed $2,599, and DelDOT's Transportation Trust Fund was owed $17,692.

Financial Statements

Diamond State Port Corporation

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
Current assets		
Cash and cash equivalents	$ 10,155,200	$ 8,592,630
Accounts receivable, net	2,403,829	2,350,935
Inventory	975,625	956,098
Prepaid expenses and other assets	303,979	608,137
Total current assets	13,838,633	12,507,800
Restricted assets		
Cash and cash equivalents	3,081,955	7,905,788
Investments	17,671,734	17,570,141
Total restricted assets	20,753,689	25,475,929
Capital assets - nondepreciable	51,362,078	34,502,209
Capital assets - depreciable, net	136,426,460	135,332,860
Total capital assets, net	187,788,538	169,835,069
Total assets	222,380,860	207,818,798
Deferred outflows of resources		
Refunding of debt	180,412	206,690
Pension contributions (Note 10)	1,202,482	1,046,620
Pension plan experience differences (Note 10)	1,168,731	-
Total deferred outflows	2,551,625	1,253,310
Current liabilities		
Current portion of notes payable	1,879,418	1,893,762
Accounts payable	57,852	143,555
Accrued expenses	3,075,202	2,897,828
Accrued interest payable	136,458	147,532
Due to the State of Delaware - pension contributions	108,952	90,144
Deferred revenue	34,666	36,000
Total current liabilities	5,292,548	5,208,821

Continued…

Diamond State Port Corporation

Statements of Net Position (Continued)

June 30, 2016 and 2015

	2016	2015
Long-term liabilities		
Notes payable, net of current portion	$ 19,677,919	$ 21,557,338
Net pension liability (Note 10)	5,351,319	3,003,567
Total long-term liabilities	25,029,238	24,560,905
Total liabilities	30,321,786	29,769,726
Deferred inflows of resources		
Refunding of debt	46,021	156,476
Pension plan investment return differences (Note 10)	533,389	1,673,984
Total deferred inflows	579,410	1,830,460
Net position		
Net investment in capital assets	166,365,592	146,434,183
Restricted - capital improvement fund	20,753,689	25,475,929
Unrestricted	6,912,008	5,561,810
Total net position	$ 194,031,289	$ 177,471,922

See notes to financial statements.

Diamond State Port Corporation

Statements of Revenues, Expenses, and Changes in Net Position

June 30, 2016 and 2015

	2016	2015
Operating revenue		
Cargo handling	$ 14,383,066	$ 14,613,319
Leasing, storage, and equipment rental	12,093,214	11,505,612
Dockage and wharfage	10,550,086	10,102,207
Storm water settlement (Note 16)	-	2,873,424
Other operating revenue	1,391,760	1,334,630
Total operating revenue	38,418,126	40,429,192
Operating expenses		
Salaries and related benefits	23,515,052	22,036,689
Pension expense (Note 10)	1,085,046	624,500
Pension contributions (Note 10)	(1,202,482)	(1,046,620)
	23,397,616	21,614,569
Materials, supplies, and contractual services	10,744,712	10,945,162
Depreciation	5,989,554	5,764,872
Total operating expenses	40,131,882	38,324,603
Operating income (loss)	(1,713,756)	2,104,589
Nonoperating income (expenses)		
Interest expense	(836,875)	(916,352)
Interest income	61,365	73,918
Loss on retirements of assets	-	(12,143)
Total nonoperating expenses	(775,510)	(854,577)
Net income (loss) before capital contributions	(2,489,266)	1,250,012
Capital contributions		
Federal grant	2,737,136	182,114
State appropriations and grants	16,311,497	10,250,000
Total capital contributions	19,048,633	10,432,114
Changes in net position	16,559,367	11,682,126

Continued…

Diamond State Port Corporation

Statements of Revenues, Expenses, and Changes in Net Position (Continued)

June 30, 2016 and 2015

	2016	2015
Net position, beginning of year	$ 177,471,922	$ 169,842,847
Prior period adjustment - Implementation of GASB Nos. 68 and 71		
Net pension liability (measurement date)	-	(5,073,934)
Deferred outflows - Corporation's contributions made during Fiscal Year 2014	-	1,020,883
Total prior period adjustment	-	(4,053,051)
Net position, beginning of the year, as restated	177,471,922	165,789,796
Net position, end of year	$ 194,031,289	$ 177,471,922

See notes to financial statements.

Diamond State Port Corporation
Statements of Cash Flows
June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers and others	$ 38,363,898	$ 40,300,481
Cash payments to employees for services	(23,404,573)	(24,709,715)
Cash payments to suppliers for goods and services	(10,460,081)	(10,824,866)
Net cash provided by operating activities	4,499,244	4,765,900
Cash flows from noncapital financing activity		
Acquisition and construction of capital assets	(140,155)	(121,922)
Net cash used in noncapital financing activity	(140,155)	(121,922)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(23,802,868)	(10,521,852)
Interest paid on loans	(932,126)	(1,012,518)
Principal paid on loans	(1,893,763)	(1,810,814)
Capital contributions	19,048,633	10,432,114
Net cash used in capital and related financing activities	(7,580,124)	(2,913,070)
Cash flows from investing activities		
Sales of investments	45,201,774	32,042,236
Purchases of investments	(45,303,367)	(28,313,309)
Interest on cash and investments	61,365	73,918
Net cash provided by (used in) investing activities	(40,228)	3,802,845
Changes in cash and cash equivalents	(3,261,263)	5,533,753
Cash and cash equivalents, beginning of year	16,498,418	10,964,665
Cash and cash equivalents, end of year	$ 13,237,155	$ 16,498,418

Continued…

Diamond State Port Corporation

Statements of Cash Flows (Continued)

June 30, 2016 and 2015

	2016	2015
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ (1,713,756)	$ 2,104,589
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	5,989,554	5,764,872
Pension adjustment	(117,436)	(422,120)
Net change in the allowance for doubtful accounts	(37,817)	-
(Increase) decrease in assets		
Accounts receivable	(15,077)	(127,378)
Inventory	(19,527)	(51,073)
Prepaid expenses and other assets	304,158	171,369
Increase (decrease) in liabilities		
Accounts payable	(85,703)	(39,014)
Accrued expenses	177,374	(2,649,481)
Due to State of Delaware - pension contribution	18,808	15,469
Deferred revenue	(1,334)	(1,333)
Net cash provided by operating activities	$ 4,499,244	$ 4,765,900
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 932,126	$ 1,012,518
Supplemental schedules of noncash capital and related financing activities		
Outflows from deferred outflows of resources	$ 26,278	$ 25,049
Inflows from deferred inflows of resources	$ 110,455	$ 110,455
Cost of disposed fixed assets, resulting in a loss of $0 during 2016 and $12,143 during 2015	$ -	$ 80,956

See notes to 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. The Corporation is a public instrumentality of the State exercising essential government functions necessary in connection with the acquisition, establishment, construction, rehabilitation, improvement, operation, and maintenance of 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.

Note 2 - Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The Corporation (the reporting entity) is a discretely presented component unit of the State. 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.

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 GAAP applicable to governmental entities as prescribed by GASB. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Operating revenues and expenses generally result from 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 towards unrestricted resources.

(b) 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.

(c) Accounts Receivable

Accounts receivable are shown net of an allowance for doubtful accounts of $39,215 and $77,032 as of June 30, 2016 and 2015, respectively.

(d) 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.

(e) Restricted Investments

Restricted investments are stated at fair value.

(f) Capital Assets

The assets originally acquired by the Corporation in 1995 were recorded based on estimated fair values. Nondepreciable 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. Generally, additions and improvements in excess of $3,000 are capitalized; however, the decision to determine the remaining useful life is made on a case-by-case basis.

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

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

(g) Revenues

The significant sources of operating revenue are:

Cargo 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.

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 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 crew to load and unload cargo.

(h) 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 Fiscal Year 2016 and 2015 contributions from the State totaled $16,311,497 and $10,250,000, respectively. In Fiscal Year 2014, the Corporation was awarded a $10,000,000 TIGER grant by the U.S. Department of Transportation for the repair of Berths 5 and 6. In Fiscal Years 2016 and 2015, $2,737,136 and $182,114 of the grant, respectively, was reimbursed and recognized as capital contributions.

(i) Compensated Absences

Regular, unionized, full-time employees accrue vacation on a calendar year basis in varying amounts based on length of service and terms of the Collective Bargaining Agreement. Administrative employees can accumulate vacation time, 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 earned through year end, but not yet taken, is accrued.

(j) Deferred Outflows of Resources and Deferred Inflows of Resources

The Corporation incurred deferred charges on three refundings of the Port Debt Service Note (the Note) from the City (Note 8) in 2002, 2005, and 2013, which are being accreted over the remaining life of the Note at the time of each refunding as an adjustment to interest expense.

A deferred outflow of resources is reported for employer pension contributions made subsequent to the measurement date of the Corporation's beginning net pension liability and before the end of the Corporation's current reporting period. These charges will be recognized as a reduction to the net pension liability in the following Fiscal Year. A deferred outflow of resources is reported for the difference between expected and actual pension plan experience. The difference is amortized over a six-year period and is recognized as a component of pension expense.

A deferred inflow of resources is reported for the difference between projected and actual investment earnings on pension plan investments. The difference is amortized over a five-year period and is recognized as a component of pension expense.

(k) Use of 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. Actual results could differ from those estimates.

(l) Adoption of GASB Statements

In Fiscal Year 2016, the Corporation adopted one new accounting standard, as follows:

GASB issued Statement No. 72, *Fair Value Measurement and Application*, in February 2015. GASB No. 72 improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value guidance, and enhancing disclosures about fair value measurements. This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. The adoption of GASB No. 72 had no impact on the financial statements of the Corporation.

In Fiscal Year 2015, the Corporation adopted two new accounting standards. Both standards, which follow, were adopted as of June 30, 2014, the earliest period practical.

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, in June 2012. GASB No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of GASB No. 68 resulted in the recognition of a net pension liability of $5,073,934 and a reduction of the net position by $5,073,934 as of June 30, 2014.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in November 2013. GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state and local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The adoption of GASB No. 71 resulted in the recognition of additional deferred outflows and net position of $1,020,883 as of June 30, 2014.

Note 3 - Cash and Investments

Cash Management Policy Board

The Corporation follows the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) 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 except money in the Delaware Pension Employee Retirement System, the Other Post-Employment Benefits Trust, and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer in various pooled investment funds (State Investment Pool) except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits, but also encourages, diversifying investments across various asset classes.

Investment Guidelines and Management

The Policy specifies the type of investments that investment managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, 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 following investments are permissible for all funds under the review of the Board, subject to the percentage limitations of the account:

- U.S. government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptances
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities
- Municipal obligations

Additional permissible investments for special-purpose accounts only:

- Guaranteed investment contracts
- Asset-backed securities and trust certificates

The 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.

The State's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available on the Office of the State Treasurer's website at http://treasury.delaware.gov.

Custodial Credit Risk

Deposits

All State deposits are required by law to be collateralized by direct obligations of, or obligations that 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, for any quarter during the most recent eight quarters, a return on average assets of 0.5% or greater and an average capital ratio (total equity to total assets) of 5% or greater.

If the bank does not meet either of the above criteria, collateral must be pledged and shall consist of one or more of the following securities:

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

Additionally, the bank must ensure that those securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102% of the total average monthly ledger balance(s) [net of Federal Deposit Insurance Corporation (FDIC) limits] held in all accounts and ensure that the securities pledged as collateral are housed at the Federal Reserve Bank. Financial institutions must provide reports on a monthly basis to the State Treasurer's Office detailing the collateral pledged and provide a Call Report on a quarterly basis to the State Treasurer's Office.

As of June 30, 2016 and 2015, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

At June 30, 2016 and 2015, all of the Corporation's investments were insured or registered, with securities held by the Corporation or the counterparty in the Corporation's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Corporation accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following table presents a listing of directly held investments and related maturities at June 30, 2016:

		Investment Maturities (in years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**11 - 15**
Investment type:					
U.S. Treasury bills	$ 9,664,418	$ 9,664,418	$ —	$ —	$ —
U.S. government agency bonds and notes	4,965,915	4,965,915	—	—	—
Commercial paper	3,041,401	3,041,401	—	—	—
	$ 17,671,734	$ 17,671,734	$ —	$ —	$ —

The following table presents a listing of directly held investments and related maturities at June 30, 2015:

		Investment Maturities (in years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**11 - 15**
Investment type:					
U.S. Treasury bonds and notes	$ 747,915	$ 747,915	$ —	$ —	$ —
U.S. government agency bonds and notes	8,236,768	6,237,528	1,999,240	—	—
Commercial paper	8,585,458	8,585,458	—	—	—
	$ 17,570,141	$ 15,570,901	$ 1,999,240	$ —	$ —

Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the Corporation did not have any investments valued using Level 3 inputs.

The Corporation has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury securities of $9,664,418 are valued using quoted market prices (Level 1 inputs)
- U.S. government agency bonds and notes of $4,965,915 are valued using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)
- Commercial paper of $3,041,401 is valued using a present value using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)

The Corporation has the following recurring fair value measurements as of June 30, 2015:

- U.S. Treasury securities of $747,915 are valued using quoted market prices (Level 1 inputs)
- U.S. government agency bonds and notes of $8,236,768 are valued using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)
- Commercial paper of $8,585,458 is valued using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation follows the Policy by investing only in authorized securities. The Corporation's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

The Policy requires that investments in asset-backed securities be rated AAA by a major rating agency. Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S&P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

Investment	S&P	Moody's	Fitch
Commercial paper	A-2	P-2	F2
Senior long-term debt	A	A	A
Corporate bonds and debentures	A-	A3	A-

The Corporation's investments carry ratings that are in compliance with the Policy.

Investments in Excess of 5%

Concentration of credit risk is the risk of loss attributed to the magnitude of the Corporation's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

The Policy provides that the purchase of securities cannot exceed the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

A. U.S. government - no restrictions.

B. Government agency - 50% total; 20% in any one agency.

C. Certificates of deposit, time deposits, and bankers acceptances - 50% total; 5% in any one issuer.

   1. Domestic - No additional restrictions.

   2. Nondomestic - 25%.

   3. Delaware domiciled - Not more than the lesser of $10 million or 25% of an issuer’s total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

   1. Domestic - No additional restrictions.

   2. Nondomestic - 25%; 5% in any one issuer.

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

G. Money market funds - 25% total; 10% in any one fund.

H. Canadian treasuries - 25% total; 10% in any one agency.

I. Canadian agency securities - 25% total; 10% in any one agency.

J. Mortgage-backed and asset-backed securities - 10% total (when combined with asset-backed securities and trust certificates, if applicable).

K. Municipal obligations - 5% in any one issuer.

L. Guaranteed investment contracts - Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

M. Asset-backed securities and trust certificates - 10% total (when combined with mortgage-backed and asset-backed securities, if applicable).

For the purpose of calculating the various Policy restrictions, the Corporation considers the total investment portfolio, which includes cash and cash equivalents, while calculating the percentage of individual investments.

The following issuers have investments at fair value in excess of 5% of the total investment portfolio (includes restricted cash and cash equivalents) at June 30, 2016:

United States Treasury	$ 9,664,418	47%
Federal Home Loan Bank	3,470,135	17
Federal National Mortgage Association	1,495,780	7
J.P. Morgan Securities	1,045,585	5

The following issuers have investments at fair value in excess of 5% of the total investment portfolio (includes restricted cash and cash equivalents) at June 30, 2015:

Federal Home Loan Bank	$ 4,492,167	18%
Federal Home Loan Mortgage Corporation	2,496,418	10
BASF SE	1,396,355	6

Cash and Cash Equivalents

Cash and cash equivalents, as reported on the Statements of Net Position, is under the control of the Corporation. The Corporation invests the deposited cash, including the cash float in short-term securities and other investments. The Corporation maintains substantially all of its cash and cash equivalent accounts with one financial institution. Deposits are insured up to $250,000. The Corporation has never experienced any losses related to these balances. Deposits in excess of the FDIC limits were $10,322,798 and $8,545,395 as of June 30, 2016 and 2015, respectively.

Note 4 - Restricted Assets

Restricted assets consisted of cash equivalents and investments, and the purpose of the restriction was as follows as of June 30,:

	2016	**2015**
Capital improvements	$ 20,753,689	$ 25,475,929

Assets restricted for capital improvements consisted of contributions from the State. As of June 30, 2016, these assets were invested in money market funds, commercial paper, U.S. Treasury bills, and U.S. government agency bonds and notes. As of June 30, 2015, these assets were invested in money market funds, commercial paper, U.S. Treasury bills, U.S. Treasury bonds and notes, and U.S. government agency bonds and notes.

Note 5 - Capital Assets

Property and equipment activity during Fiscal Year 2016 consisted of the following:

	June 30, 2015	Additions	Retirements	Transfers	June 30, 2016
Capital Assets - Nondepreciable					
Land	$ 25,504,410	$ -	$ -	$ -	$ 25,504,410
Construction in progress	8,997,799	23,943,023	-	(7,083,154)	25,857,668
Total Capital Assets - Nondepreciable	$ 34,502,209	$ 23,943,023	$ -	$ (7,083,154)	$ 51,362,078
Capital Assets - Depreciable					
Land improvements	$ 12,494,732	$ -	$ -	$ 22,629	$ 12,517,361
Buildings and warehouses	90,826,849	-	-	1,838,474	92,665,323
Docks, wharves, and rail	63,867,322	-	-	21,200	63,888,522
Equipment and cranes	34,504,504	-	-	3,955,375	38,459,879
Streets and water utilities	5,953,105	-	-	24,932	5,978,037
Vehicles and other	11,322,563	-	-	1,220,544	12,543,107
Total Capital Assets - Depreciable	218,969,075	-	-	7,083,154	226,052,229
Less: Accumulated Depreciation					
Land improvements	9,221,308	386,959	-	-	9,608,267
Buildings and warehouses	30,916,321	2,058,823	-	-	32,975,144
Docks, wharves, and rail	17,224,194	1,356,363	-	-	18,580,557
Equipment and cranes	14,498,851	1,451,501	-	-	15,950,352
Streets and water utilities	3,643,097	276,259	-	-	3,919,356
Vehicles and other	8,132,444	459,649	-	-	8,592,093
Total Accumulated Depreciation	83,636,215	5,989,554	-	-	89,625,769
Total Capital Assets - Depreciable, Net	$ 135,332,860	$ (5,989,554)	$ -	$ 7,083,154	$ 136,426,460

Property and equipment activity during Fiscal Year 2015 consisted of the following:

	June 30, 2014	Additions	Retirements	Transfers	June 30, 2015
Capital Assets - Nondepreciable					
Land	$ 25,504,410	$ -	$ -	$ -	$ 25,504,410
Construction in progress	1,732,952	10,643,774	-	(3,378,927)	8,997,799
Total Capital Assets - Nondepreciable	$ 27,237,362	$ 10,643,774	$ -	$ (3,378,927)	$ 34,502,209
Capital Assets - Depreciable					
Land improvements	$ 12,047,167	$ -	$ -	$ 447,565	$ 12,494,732
Buildings and warehouses	89,600,703	-	-	1,226,146	90,826,849
Docks, wharves, and rail	63,524,234	-	-	343,088	63,867,322
Equipment and cranes	33,307,550	-	(80,956)	1,277,910	34,504,504
Streets and water utilities	5,953,105	-	-	-	5,953,105
Vehicles and other	11,238,345	-	-	84,218	11,322,563
Total Capital Assets - Depreciable	215,671,104	-	(80,956)	3,378,927	218,969,075
Less: Accumulated Depreciation					
Land improvements	8,836,378	384,930	-	-	9,221,308
Buildings and warehouses	28,943,368	1,972,953	-	-	30,916,321
Docks, wharves, and rail	15,868,828	1,355,366	-	-	17,224,194
Equipment and cranes	13,245,735	1,333,942	(68,813)	(12,013)	14,498,851
Streets and water utilities	3,363,216	279,881	-	-	3,643,097
Vehicles and other	7,682,631	437,800	-	12,013	8,132,444
Total Accumulated Depreciation	77,940,156	5,764,872	(68,813)	-	83,636,215
Total Capital Assets - Depreciable, Net	$ 137,730,948	$ (5,764,872)	$ (12,143)	$ 3,378,927	$ 135,332,860

Depreciation expense was $5,989,554 and $5,764,872 for the Fiscal Years Ended June 30, 2016 and 2015, respectively.

Note 6 - Leasing Revenue

The Corporation leases certain Port terminal and storage space to tenants. Total rental income under those operating leases amounted to $4,829,946 and $4,634,663 for the Fiscal Years Ended June 30, 2016 and 2015, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases with original lease terms in excess of one year as of June 30, 2016:

2017	$ 4,499,509
2018	4,432,796
2019	3,772,791
2020	3,172,356
2021	3,204,244
Thereafter	33,436,000
	$52,517,696

Note 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 as of June 30, 2016 and 2015. 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.

Note 8 - Notes Payable and Deferred Outflows and Inflows of Resources

The following is a summary of debt transactions for the Fiscal Years Ended June 30,:

2016			
	Outstanding June 30, 2015	Payments and Other Reductions	Outstanding June 30, 2016
Transportation Trust Fund Note	$ 16,768,190	$ (960,396)	$ 15,807,794
City of Wilmington Port Debt Service Notes	4,219,563	(825,890)	3,393,673
Delaware River and Bay Authority	2,413,133	(191,654)	2,221,479
Total Notes Payable	23,400,886	$ (1,977,940)	21,422,946
Less: Deferred Outflows and Inflows of Resources - Net	(50,214)		(134,391)
Less: Current Maturities of Notes Payable	1,893,762		1,879,418
Long-Term Notes Payable (Net of Current Maturities)	$ 21,557,338		$ 19,677,919

2015	Outstanding June 30, 2014	Payments and Other Reductions	Outstanding June 30, 2015
Transportation Trust Fund Note	$ 17,691,538	$ (923,348)	$ 16,768,190
City of Wilmington Port Debt Service Notes	5,006,437	(786,874)	4,219,563
Delaware River and Bay Authority	2,599,131	(185,998)	2,413,133
Total Notes Payable	25,297,106	$ (1,896,220)	23,400,886
Less: Deferred Outflows and Inflows of Resources - Net	35,192		(50,214)
Less: Current Maturities of Notes Payable	1,810,814		1,893,762
Long-Term Notes Payable (Net of Current Maturities)	$ 23,451,100		$ 21,557,338

Interest charges were as follows for the Fiscal Years Ended June 30,:

2016	Accrued Interest June 30, 2015	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2016
Transportation Trust Fund Note	$ 55,754	$ 664,152	$ (667,345)	$ 52,561
City of Wilmington Port Debt Service Notes	85,745	103,429	(110,831)	78,343
Delaware River and Bay Authority	6,033	69,294	(69,773)	5,554
Total Accrued Interest	$ 147,532	$ 836,875	$ (847,949)	$ 136,458

2015	Accrued Interest June 30, 2014	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2015
Transportation Trust Fund Note	$ 58,824	$ 701,321	$ (704,391)	$ 55,754
City of Wilmington Port Debt Service Notes	92,970	140,066	(147,291)	85,745
Delaware River and Bay Authority	6,498	74,965	(75,430)	6,033
Total Accrued Interest	$ 158,292	$ 916,352	$ (927,112)	$ 147,532

Transportation Trust Fund Note - On November 30, 2001, the Corporation entered into a loan agreement with DelDOT. The Corporation borrowed $27,500,000. The funds were used to repay the balances in full of the original DRBA 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 22 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 were 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 20 years. The interest rate was 3.99% during 2016 and 2015. The loan matures March 2029.

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

Fiscal Year	Principal	Interest	Total
2017	$ 998,927	$ 628,814	$ 1,627,741
2018	1,039,005	588,736	1,627,741
2019	1,080,691	547,050	1,627,741
2020	1,124,050	503,691	1,627,741
2021	1,169,148	458,593	1,627,741
2022 - 2026	6,588,141	1,550,564	8,138,705
2027 - 2029	3,807,832	261,520	4,069,352
	$15,807,794	$4,538,968	$20,346,762

City of Wilmington Notes Payable - In consideration for the acquisition of the Port assets from 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 Note.

b. *Port Debt Service Note* - The Port Debt Service Note requires payments to the City in amounts that equal the debt service of certain Port-related City general obligation bonds, with interest rates from 3.20% to 6.40%.

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 charge of $261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by $281,293 over 11 years, resulting in an economic gain. The deferred outflow of resources on the refunding was accreted over the 11-year life of the debt.

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 5.00%, 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 charge of $397,862, it reduced the Corporation's debt service payments by $251,815 over the next 17½ years, resulting in an economic gain. The deferred outflow of resources on the refunding is accreted over the 17½ year life of the debt. During the Fiscal Years Ended June 30, 2016 and 2015, $26,278 and $25,049, respectively, was charged to interest expense, which is included in the Statements of Revenues, Expenses, and Changes in Net Position.

On March 1, 2013, the City issued $37,885,000 of general obligation bonds with interest rates of 3.00% to 5.00% to advance refund $37,190,000 of outstanding 2006 A Series general obligations bonds with interest rates of 3.50% to 5.00%. The Port-related portions of the new bonds issued and old bonds redeemed were $1,725,000 and $1,320,000, respectively, passed through to the Corporation. The effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred inflow of resources of $405,000, which is accreted over the 3½ year life of the Port-related debt. During the Fiscal Years Ended June 30, 2016 and 2015, $110,455 and $110,455, respectively, was charged to interest expense, which is included in the Statements of Revenues, Expenses, and Changes in Net Position.

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

Fiscal Year	Principal	Interest	Total
2017	$ 683,008	$ 157,052	$ 840,060
2018	253,314	135,920	389,234
2019	273,832	122,742	396,574
2020	465,087	104,269	569,356
2021	798,170	72,687	870,857
2022 - 2023	1,054,653	53,380	1,108,033
Deferred outflows and inflows of resources - net	(134,391)	-	(134,391)
Totals	$3,393,673	$646,050	$4,039,723

The loan matures in July 2022.

Delaware River and Bay Authority Obligation **-** On March 1, 2005, the Corporation entered into an agreement with the DRBA whereby the Corporation agreed to lease to the DRBA land and a warehouse, located at the Port, for 20 years. The rent for the entire 20-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 20 years, totaling $4,000,000 plus interest, which ranges from 1.50% to 5.32%.

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

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

Fiscal Year	Principal	Interest	Total
2017	$ 197,483	$ 63,944	$ 261,427
2018	157,555	103,872	261,427
2019	166,145	95,282	261,427
2020	175,202	86,225	261,427
2021	184,754	76,673	261,427
2022 - 2026	1,086,290	220,844	1,307,134
2027	254,050	7,380	261,430
Totals	$2,221,479	$654,220	$2,875,699

The loan matures in June 2027.

Note 9 - Capital Contributions

Since its inception and for Fiscal Years 2016 and 2015, the Corporation has received capital contributions from the State and federal grants as follows:

	Inception to Date	FY 2016	FY 2015
State of Delaware	$225,421,440	$16,311,497	$10,250,000
Federal	8,590,462	2,737,136	182,114
Totals	$234,011,902	$19,048,633	$10,432,114

Note 10 - Pension Plan and Other Post-Retirement Employee Benefits

Plan Description - The Diamond State Port Corporation Pension Plan (the Plan) is a single-employer, defined benefit pension plan that covers all eligible employees of the Corporation.

Benefits - 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 65. 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 65 if at least 15 years of credited service are obtained.

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.

As of June 30, 2015, the following employees were covered by the Plan:

Active members	255
Inactive members or beneficiaries currently receiving benefits	80
Terminated, vested members	26
Terminated, non-vested members	5
	366

As of June 30, 2014, the following employees were covered by the Plan:

Active members	274
Inactive members or beneficiaries currently receiving benefits	65
Terminated, vested members	9
	348

Net Pension Liability **-** The Corporation's net pension liability for the Fiscal Years Ended June 30, 2016 and 2015 was determined by an actuarial valuation as of June 30, 2015 and 2014. Update procedures were used to roll forward the 2014 valuation results. There have been no changes between the measurement date of the net pension liability and the employer's report date that are expected to have a significant effect on the net pension liability. The total pension liability used to calculate net pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	4.0%, including inflation
Investment rate of return	7.2%, including inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the recommendation of the actuary and adopted by the Plan's Board of Trustees based on the most recent review of the Plan's experience completed in 2011. The Board of Trustees further modified the investment rate of return and inflation assumptions for the 2014 Plan year. In addition, mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2015 using a Scale AA for Males and Females, as appropriate.

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

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	5.70%
International equity	5.70%
Fixed income	2.00%
Alternative investments	7.80%
Cash and equivalents	-

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

Changes in the Corporation's Net Pension Liability **-** Changes in the Corporation's net pension liability for the Fiscal Year Ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pensions Liability [a]	**Plan Fiduciary Net Position [b]**	**Net Pension Liability [a] – [b]**
Balance, June 30, 2015	$28,006,523	$25,002,956	$ 3,003,567
Changes for the year:			
Service cost	949,798	-	949,798
Interest	2,160,067	-	2,160,067
Difference between expected and actual experience	1,402,477	-	1,402,477
Contributions – employees	-	233,430	(233,430)
Contributions – employer	-	1,052,285	(1,052,285)
Net investment income	-	915,990	(915,990)
Benefit payments, including refunds of employee contributions	(728,383)	(728,383)	-
Administrative expenses	-	(37,115)	37,115
Net changes	3,783,959	1,436,207	2,347,752
Balance, June 30, 2016	$31,790,482	$26,439,163	$ 5,351,319

Changes in the Corporation's net pension liability for the Fiscal Year Ended June 30, 2015 were as follows:

	Increase (Decrease)		
	Total Pensions Liability [a]	**Plan Fiduciary Net Position [b]**	**Net Pension Liability [a] – [b]**
Balance, June 30, 2014	$25,892,028	$20,818,094	$ 5,073,934
Changes for the year:			
Service cost	870,491	-	870,491
Interest	1,872,777	-	1,872,777
Contributions – employees	-	235,564	(235,564)
Contributions – employer	-	1,009,327	(1,009,327)
Net investment income	-	3,611,661	(3,611,661)
Benefit payments, including refunds of employee contributions	(628,773)	(628,773)	-
Administrative expenses	-	(42,917)	42,917
Net changes	2,114,495	4,184,862	(2,070,367)
Balance, June 30, 2015	$28,006,523	$25,002,956	$ 3,003,567

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate* -** The following presents the net pension liability calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

For the Fiscal Year Ended June 30, 2016:

	Discount rate	Net pension liability
1% decrease	6.20%	$8,234,209
Current discount rate	7.20%	$5,351,319
1% increase	8.20%	$1,323,241

For the Fiscal Year Ended June 30, 2015:

	Discount rate	Net pension liability
1% decrease	6.20%	$6,537,236
Current discount rate	7.20%	$3,003,567
1% increase	8.20%	$ 20,379

***Expected and Actual Experience Differences* -** The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members, which is six years. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of the difference between expected and actual experience was $1,168,731 and $0 for the Fiscal Years Ended June 30, 2015 and 2014, respectively.

***Change in Assumptions* -** The change in assumptions about future economic or demographic factors or other inputs are amortized over the weighted average of the expected remaining service life of active and inactive members, which is six years. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of change in assumptions was $0 for each of the Fiscal Years Ended June 30, 2015 and 2014.

***Difference between Projected and Actual Investment Earnings on Pension Plan Investments* -** The difference between the actual earnings on Plan investments compared to the Plan's expected rate of return of 7.2% is amortized over a closed period of five years. The first year of amortization is recognized as pension expense with the remaining four years to be shown as deferred inflow of resources. The collective amount of the difference between projected and actual earnings was $533,389 and $1,673,984 for the Fiscal Years Ended June 30, 2015 and 2014, respectively.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources - For Fiscal Years 2016 and 2015, the components of pension expense were as follows:

	2016	2015
Service cost	$ 949,798	$ 870,491
Interest	2,160,067	1,872,777
Contributions - employees	(233,430)	(235,564)
Administrative expense	37,115	54,471
Projected earnings on Plan investments	(1,818,615)	(1,519,179)
Amortization of pension plan experience	233,746	-
Amortization of investment return differences	(243,635)	(418,496)
Pension expense	$ 1,085,046	$ 624,500

For the Fiscal Year Ended June 30, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 1,202,482	$ -
Pension plan experience	1,168,731	-
Pension plan investment return differences	-	533,389
Totals	$ 2,371,213	$ 533,389

For the Fiscal Year Ended June 30, 2015, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 1,046,620	$ -
Pension plan investment return differences	-	1,673,984
Totals	$ 1,046,620	$ 1,673,984

Amounts reported as deferred outflows of resources for pension contributions will be recognized as a reduction to the net pension liability in the following Fiscal Year. Amounts reported as deferred outflows of resources for pension plan experience differences and deferred inflows of resources for pension plan investment return differences will be recognized in pension expense as follows:

Fiscal Years Ended June 30,:	
2017	$ (4,225)
2018	(4,225)
2019	(4,227)
2020	414,271
2021	233,748
Thereafter	-

Annual Pension Cost - The Corporation contributed 100% of its annual required contribution during the Fiscal Years Ended June 30, 2016 and 2015. The annual pension cost was equal to the annual required contribution of $1,046,620 and $1,020,883 for the Fiscal Years Ended June 30, 2016 and 2015, respectively.

The annual required contribution for the current year was determined as part of the June 30, 2015 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 7.20% investment rate of return and (b) projected salary increases of 4.00%, which included an inflation component of 3.00%. 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, 2016 was 15 years.

The Schedule of Changes in Net Pension Liability and Related Ratios presented as Required Supplementary Information following the Notes to Financial Statements, presents multi-year 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 table provides an analysis of the funding progress of the Plan as of June 30, 2015, 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, 2015	$26,262,600	$31,128,000	$4,865,400	84.37%	$11,790,800	41.26%

The Delaware Public Employees' Retirement System, which administers the 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.

Payable to the Plan - At June 30, 2016 and 2015, the Corporation reported payables of $108,952 and $90,144, respectively, for the outstanding amount of contributions due to the Plan.

***Other Post-Retirement Employee Benefits* -** Retirees of the Corporation are permitted to enroll in the State's health insurance plan in which they pay the premiums in full on a monthly basis. The Corporation is not obligated to pay for any medical costs under the Plan. Therefore, the Corporation has not recorded a liability for other post-retirement employee benefits in its financial statements.

Note 11 - Lease Commitments

The Corporation leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was $567,353 and $717,333 for the Fiscal Years Ended June 30, 2016 and 2015, 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'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 $1.52 and $1.60 per $100 of payroll, which was $261,815 and $250,178 for the Fiscal Years Ended June 30, 2016 and 2015, 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 24.74% and 23.08% of operating revenues (47.82% total) for the Fiscal Year Ended June 30, 2016. The same two customer groups accounted for approximately 26.40% and 21.20% for the Fiscal Year Ended June 30, 2015.

Note 15 - Collective Bargaining

The Corporation employs 262 full-time and part-time benefits eligible employees. There are 79 full-time employees who are represented by the International Longshoremen's Association (ILA) - Local 1694-1. The most recent collective bargaining agreement (ILA Agreement) was ratified in March 2015 for the period October 1, 2013 through September 30, 2016. There are 120 part-time grandfathered employees (only those working over 800 hours in a previous calendar year) who are also represented by the International Longshoremen's Association, under the ILA Agreement. There are 15 full-time employees who are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement that was ratified in June 2015 for the period October 1, 2014 through September 30, 2017. There are 48 administrative employees (18.32%) not covered under collective bargaining agreements.

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, 2016 and 2015, the Corporation had construction in progress of $25,857,668 and $8,997,799, respectively. Funding for capital projects has been received from operations, the State, the U.S Department of Transportation, the United States Maritime Administration, and the Delaware Economic Development Office. As of June 30, 2016 and 2015, the Corporation had $20,753,689 and $25,475,929, respectively, in investments (including restricted cash and cash equivalents) 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.

The Corporation was named a defendant in a lawsuit brought by the City relating to storm water charges billed by the City since 2009. As per the litigation, the City sought over $4,500,000 for amounts past due including late fee penalties and interest. The Corporation's management believed the charges billed by the City to be inappropriate and contrary to the Port Acquisition Agreement entered into by the two parties. As of June 30, 2014, the Corporation had accrued $2,873,424 of the storm water charges. The lawsuit was settled in April 2015. During the Fiscal Year Ended June 30, 2015, the Corporation reversed and recorded the prior accrual of $2,873,424 as operating revenue. Starting in 2015, the Corporation will pay storm water charges on the agreed-upon storm water acreage at the current rate set forth in the City’s storm water ordinance. For Fiscal Year 2016, the storm water charges amounted to a little over $6,500.

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 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.

Required Supplementary Information

Diamond State Port Corporation
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2015 and 2014

The following provides an analysis of the changes in the Corporation's net pension liability as of June 30,:

	2015	2014
Total pension liability		
Service cost	$ 949,798	$ 870,491
Interest	2,160,067	1,872,777
Difference between expected and actual experience	1,402,477	-
Benefit payments, including refunds of employee contributions	(728,383)	(628,773)
Net changes in total pension liability	3,783,959	2,114,495
Total pension liability - beginning	28,006,523	25,892,028
Total pension liability - ending (a)	$31,790,482	$28,006,523
Plan fiduciary net position		
Contributions - employer	$1,052,285	$ 1,009,327
Contributions - employees	233,430	235,564
Net investment income	915,990	3,611,661
Benefit payments, including refunds of employee contributions	(728,383)	(628,773)
Administrative expenses	(37,115)	(42,917)
Net changes in plan fiduciary net position	1,436,207	4,184,862
Plan fiduciary net position - beginning	25,002,956	20,818,094
Plan fiduciary net position - ending (b)	$26,439,163	$25,002,956
Corporation's net pension liability - ending (a) - (b)	$5,351,319	$3,003,567
Plan fiduciary net position as a percentage of the total pension liability	83.17%	89.28%
Covered-employee payroll	$11,790,800	$12,644,400
Corporation's net pension liability as a percentage of covered-employee payroll	45.39%	23.75%

Diamond State Port Corporation
Schedule of Contributions
June 30, 2016

The following provides an analysis of the employer contributions made to the Plan in relation to the actuarially determined contributions during the Fiscal Years Ended June 30,:

	2016	2015
Actuarially determined contribution	$ 1,052,285	$ 1,009,327
Contributions in relation to the actuarially determined contribution	1,052,285	1,009,327
Contribution excess	$ -	$ -
Covered-employee payroll	$11,790,800	$12,644,400
Contributions as a percentage of covered-employee payroll	8.92%	7.98%

Notes to Schedule

Valuation date:	July 1, 2015

Actuarially determined rates are calculated as of June 30, two years prior to the end of the Fiscal Year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Percentage of pay - open
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	4.00%, including inflation
Investment rate of return	7.20%, including inflation
Retirement age	A member may retire after completing five years of service and after reaching normal retirement age of 65.
Mortality	Mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2015 using a Scale AA for Males and Females, as Appropriate.

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Right, By Your Side

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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*

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Diamond State Port Corporation (the Corporation) as of and for the Fiscal Year Ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 14, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Board of Directors

Compliance and Other Matters

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

Purpose of this Report

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

Santora CPA Group

September 14, 2016
Newark, Delaware

Santora CPA Group
Right, By Your Side

William A. Santora, CPA
John A. D'Agostino, CPA, MST
Heath N. Kahrs, CPA
Robert S. Smith, CPA
Stacey A. Powell, CPA, CFE, CICA

Robert Freed, Principal
Linda A. Pappajohn, Principal

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by Uniform Guidance

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited Diamond State Port Corporation's (the Corporation) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Corporation's major federal program for the Fiscal Year Ended June 30, 2016. The Corporation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Corporation's major federal program based on our audit of the types of compliance requirements referred to above. 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 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 on compliance for the Corporation's major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the Fiscal Year Ended June 30, 2016.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-002. Our opinion on the major federal program is not modified with respect to this matter.

The Corporation's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be material weaknesses.

The Corporation's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Board of Directors

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Santora CPA Group

September 14, 2016
Newark, Delaware

Diamond State Port Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal CFDA Number	Federal Grantor/Pass-Through Grantor/Program Title	Passed through to Subrecipient	Expenditures
	U.S. Department of Transportation		
20.933	TIGER Discretionary Grants	$ -	$ 2,693,622
	Total – U.S. Department of Transportation	**$ -**	**$ 2,693,622**
	Total Expenditures of Federal Awards	**$ -**	**$ 2,693,622**

Diamond State Port Corporation
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Corporation under programs of the federal government for the Fiscal Year Ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flow of the Corporation.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized when following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rates

The Corporation does not charge indirect costs to its federal programs.

Diamond State Port Corporation
Schedule of Findings and Questioned Costs
June 30, 2016

1 – Summary of Auditors' Results

Financial Statements

(a) The type of report issued on the financial statements	Unmodified
(b) Material weaknesses and/or significant deficiencies in internal control over financial reporting were disclosed in connection with the audit of the financial statements	No
(c) Noncompliance that is material to the financial statements	No

Federal Awards

(d) Type of report issued on compliance for major programs	Unqualified
(e) Material weaknesses and/or significant deficiencies identified in internal control over major programs	Yes
(f) Identification of major programs	
TIGER Discretionary Grants (20.933)	
(g) Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	Yes
(h) Dollar threshold used to distinguish between Type A and Type B programs	$750,000
(i) Auditee qualified as a low-risk auditee under 2 CFR 200.18(c)	No

2 – Findings Related to the Financial Statements Reported in Accordance with Government Auditing Standards

None.

Finding Reference Number	2016-001
Prior Year Finding	No
Major Federal Program	TIGER Discretionary Grants (20.933)
Federal Award Identification Number	DTMA91G140007
Federal Awarding Agency	United States Maritime Administration (MARAD)
Type of Finding	Material Weakness
Compliance Requirement	Cash Management

Criteria

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-federal entities receiving federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in May 2013 defines control activities as *"the actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes, and over the technology environment. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities."*

Condition

Reimbursement requests for the TIGER Discretionary Grants Program (the Program) are submitted via federal Form SF-270, and data entry of the reimbursement amount requested into the Delphi online system. The Port submits reimbursement requests periodically, on an as-needed basis. There were a total of five reimbursement requests totaling $2,737,136 for Fiscal Year 2016.

In testing a sample of two reimbursement requests totaling $1,549,524, we noted that supervisory review was not completed prior to submission of the request for payment. The Cost Analyst is responsible for maintaining the Excel list of transactions used to prepare Form SF-270, for completing Form SF-270, and for submitting the reimbursement request via the Delphi online system.

Cause

Program management does not have a management review and approval process in place to ensure the accuracy and completeness of reimbursement requests submitted and to monitor compliance with cash management requirements.

Effect

Without a management review control in place, the Program may not detect errors or noncompliance with the cash management terms of the grant agreement.

Recommendation

We recommend that management develop and implement a formal, management review and approval process to review Form SF-270 reporting packages and the Delphi online system reimbursement requests to ensure the accuracy and completeness of reimbursement requests submitted and to monitor compliance with cash management requirements.

Questioned Costs

There are no questioned costs associated with this finding.

Views of Responsible Officials

The Controller will review the Form SF-270 reporting package and the Delphi online system reimbursement requests, and initial the iSupplier Portal printout.

Finding Reference Number	2016-002
Prior Year Finding	No
Major Federal Program	TIGER Discretionary Grants (20.933)
Federal Award Identification Number	DTMA91G140007
Federal Awarding Agency	MARAD
Type of Finding	Material Weakness, Noncompliance
Compliance Requirement	Reporting

Criteria

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-federal entities receiving federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in May 2013 defines control activities as *"the actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes, and over the technology environment. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities."*

The Program Grant Agreement includes the following requirements for quarterly progress and annual program reports:

3.2 Project Progress and Monitoring Reports: Consistent with the purposes of the FY 2013 TIGER Discretionary Grants, to ensure accountability and transparency in governmental spending, the Grantee shall submit quarterly progress reports (as set forth in Exhibit H, Quarterly Progress Reports) and Federal Financial Reports (SF-425) to the contacts designated by the Government in section 3.5. The Grantee shall submit the quarterly progress reports to the Government on a quarterly basis, beginning on the 20th of the first month of the calendar year quarter following the Effective Date, and on the 20th of the first month of each calendar year quarter thereafter until completion of the Project. The initial quarterly progress report shall include a detailed description, and, where appropriate, drawings, of the items funded.

3.3 Annual Budget Review and Program Plan: The Grantee shall submit an Annual Budget Review and Program Plan to the Government via e-mail 60 days prior to the end of each Agreement year. The Annual Budget Review and Program Plan shall provide a detailed schedule of activities, estimate of specific performance objectives, include forecasted expenditures, and schedule of milestones for the upcoming Agreement year. If there are no proposed deviations from the approved Estimated Project

Budget, the Annual Budget Review and Program Plan shall contain a statement so stating. The Grantee shall meet with the Government annually to discuss the Annual Budget Review and Program Plan no later than 60 days following submission of the Annual Budget Review and Program Plan to the Government. If there is an actual or projected Project cost increase, the Annual Budget Review and Program Plan should include a discussion of the plan for providing additional sources of funding to cover the Project budget shortfall or supporting documentation of committed funds to cover the cost increase.

Condition

There is a lack of segregation of duties in the Quarterly Project Progress and Monitoring Reports and Annual Budget Review and Program Plan reports processes; the Director, Engineering and Maintenance is responsible for the preparation and submission of these reports. In testing a sample of two quarterly Project Progress and Monitoring Reports, we noted that supervisory review was not completed prior to submission of the report to the federal awarding agency. In addition, we noted that the Annual Budget Review and Program Plan for the current year was not completed and submitted in accordance with the provisions of the grant agreement.

The Corporation did not maintain supporting documentation that links the reports to reported data elements. As a result, we were unable to verify that certain amounts reported were completely and accurately stated.

Cause

Program management does not have a management review and approval process in place to ensure the accuracy and completeness of the Quarterly Project Progress and Monitoring Reports and Annual Budget Review and Program Plan reports submitted and to monitor compliance with reporting requirements.

Effect

Without a management review control in place, the Program may not detect errors or noncompliance with the reporting terms of the grant agreement. Lack of a reporting package to demonstrate the source of reported data elements may result in inaccurate or incomplete information being reported in the Program reports.

Recommendation

We recommend that management develop and implement a formal, management review and approval process to review Quarterly Project Progress and Monitoring Reports and Annual Budget Review and Program Plan reports, along with supporting documentation of how reported data elements were calculated, to ensure the accuracy and completeness of the information included in the reports and to monitor compliance with reporting requirements.

Questioned Costs

There are no questioned costs associated with this finding.

Views of Responsible Officials

The Executive Director will review and initial them going forward.

The Corporation does maintain adequate supporting documents for the projects, but they may not be in a format providing ready reconciliation with the audit procedure. Now that the Corporation is aware of what the auditors are looking for, the reports will be tailored for such a format and will be available for future audits.