



Diamond State Port Corporation

(A Component Unit of the State of Delaware)

Financial Statements

(and Supplemental Information)

Years Ended June 30, 2013 and 2012

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Diamond State Port Corporation

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Independent Auditor's 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, a component unit of the State of Delaware, as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Diamond State Port 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 State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diamond State Port Corporation as of June 30, 2013 and 2012, 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.



Independent Auditor's Report (Cont'd.)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 through 11 and the Pension Funding Status and Progress on page 37 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Diamond State Port Corporation's internal control over financial reporting and compliance.

BDO USA, LLP

Certified Public Accountants
September 30, 2013

Management's Discussion and Analysis - Unaudited

(all amounts in \$'000)

As management of the Diamond State Port Corporation (the Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information detailed in the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Port exceeded its liabilities at June 30, 2013 by \$162,925 (*net position*). Included in this amount is \$140,231 invested in capital assets net of related debt; and restricted net position of \$19,890 after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.
- The Port's total net position increased by \$9,944 during FY 2013. The Port incurred a net loss of \$2,145 before Capital Contributions of \$2,089 from the Federal government for security projects and \$10,000 from the State of Delaware bond bill infusion. A comparable net loss for FY 2012 was \$2,039 before Capital Contributions.

Overview of the Financial Statements

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

The Statements of Net Position presents information on all of the Port'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 Port is improving or deteriorating.

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

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

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

Basis of Accounting: The Financial Statements of the Port are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). The Port is a component unit of the State of Delaware. The Port's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

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 Port. Port assets exceeded liabilities by \$162,925 at the close of FY 2013.

Port's Net Position as of June 30			
(\$ '000)			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and Restricted assets	\$ 30,500	\$ 22,602	\$ 22,795
Capital assets - net of accumulated depreciation	<u>166,938</u>	<u>163,315</u>	<u>166,485</u>
Total assets	<u>197,438</u>	<u>185,917</u>	<u>189,280</u>
Current liabilities	9,130	6,229	6,101
Notes Payable - net of current portion	<u>25,383</u>	<u>26,706</u>	<u>28,674</u>
Total liabilities	<u>34,513</u>	<u>32,935</u>	<u>34,775</u>
Net Position:			
Invested in capital assets - net of related debt	140,231	134,970	135,502
Restricted	19,890	13,895	16,835
Unrestricted	<u>2,804</u>	<u>4,117</u>	<u>2,168</u>
Total Net Position	<u>\$ 162,925</u>	<u>\$ 152,982</u>	<u>\$ 154,505</u>

The increase in capital assets from \$163,315 in FY 2012 to \$166,938 in FY 2013 is mainly due to a Federal security project, rehabilitation of Berth 5, equipment purchases, Berth 4 reconstruction, and various other upgrades net of relevant depreciation expense. These capital assets are used to provide required services to port customers and tenants, therefore, these assets are *not* available for future spending. The Port's investment in its capital assets is reported net of related debt; however, one should note that the resources needed to repay this debt must be provided from other sources, since under normal circumstances, the capital assets themselves cannot be used to liquidate these liabilities.

Investment in Capital assets, (e.g., land, buildings, machinery, and equipment) constitute 86% of the Port's Net Position less any related outstanding debt used to acquire those assets. A certain amount of the Port's Net Position represents resources that are subject to external

restrictions on how they may be used. The value of these restricted assets includes \$2,089 in grants for security improvement projects received in FY 2013 from the Federal government, and \$10,000 from the State of Delaware, as reduced by expenditure and outstanding liabilities incurred while creating such restricted assets. These restricted assets are usable only for payments for Capital projects. The balance of Net Position - \$2,804 - represents *unrestricted Net Position* available for any Port related business use. The decrease of \$1,313 from the unrestricted Net Position of \$4,117 as of June 30, 2012, reflects an increase in current assets, as well as an increase in current liabilities.

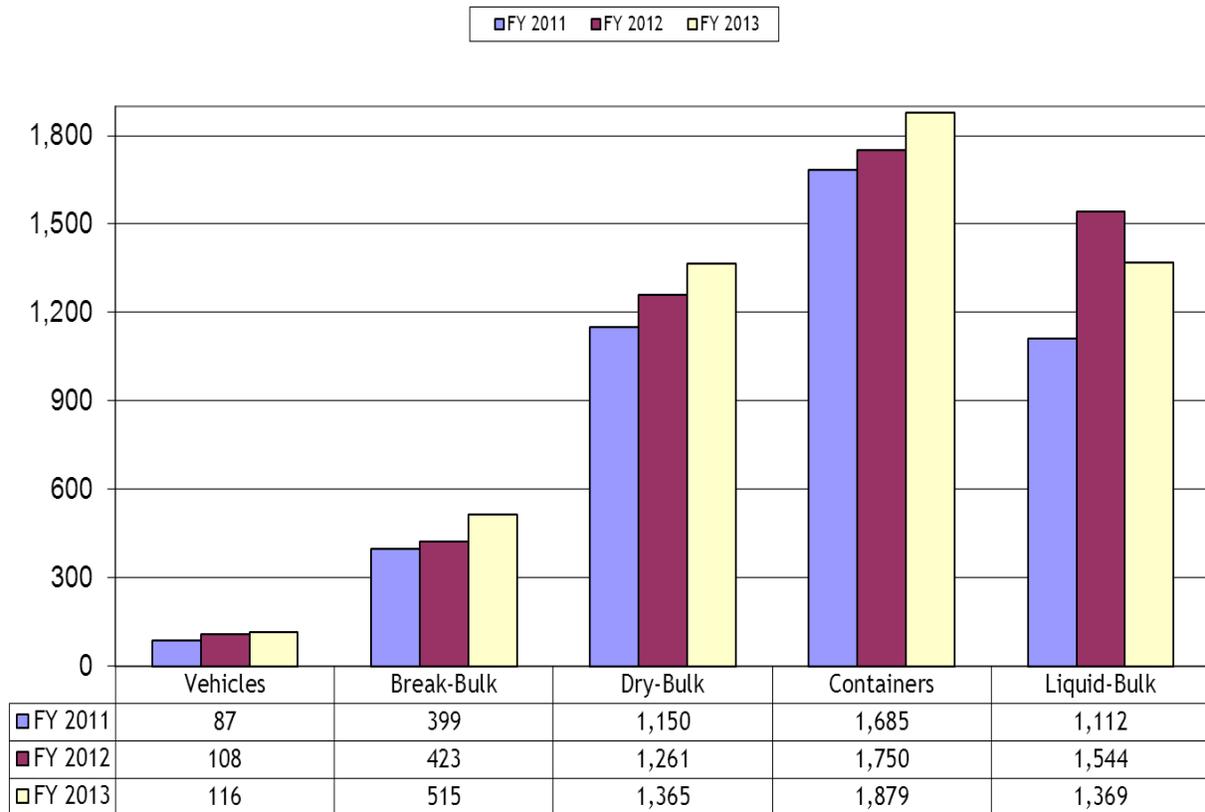
Port Activities. Port activities reduced the Port's Net Position by \$2,145 during FY 2013. Key elements of this change are as follows:

	Port Activities (\$ '000)		
	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>
Operating Revenues:			
Cargo Handling	\$ 14,041	\$ 12,293	\$ 12,712
Leasing, Storage & Equipment Rental	11,583	11,370	10,077
Dockage & Wharfage	9,988	8,987	8,179
Other	1,138	1,315	922
Total Operating Revenues	<u>36,750</u>	<u>33,965</u>	<u>31,890</u>
Operating Expenses:			
Salaries, Wages & Benefits	20,105	18,755	18,727
Materials, Supplies & Service	12,102	10,536	10,171
Depreciation	5,556	5,537	5,460
Total Operating Expenses	<u>37,763</u>	<u>34,828</u>	<u>34,358</u>
Operating Loss:	(1,013)	(863)	(2,468)
Interest (Expense)	(1,141)	(1,182)	(1,349)
Interest Income	9	6	2
Net Loss - before Capital Contributions:	<u>\$ (2,145)</u>	<u>\$ (2,039)</u>	<u>\$ (3,815)</u>

Cargo Tonnage:

A total of 5.2 million tons of cargo passed over the Port's facilities in FY 2013, an increase of 2.0% over the total tons handled in FY 2012.

Cargo Volume by groups ('000 short tons)



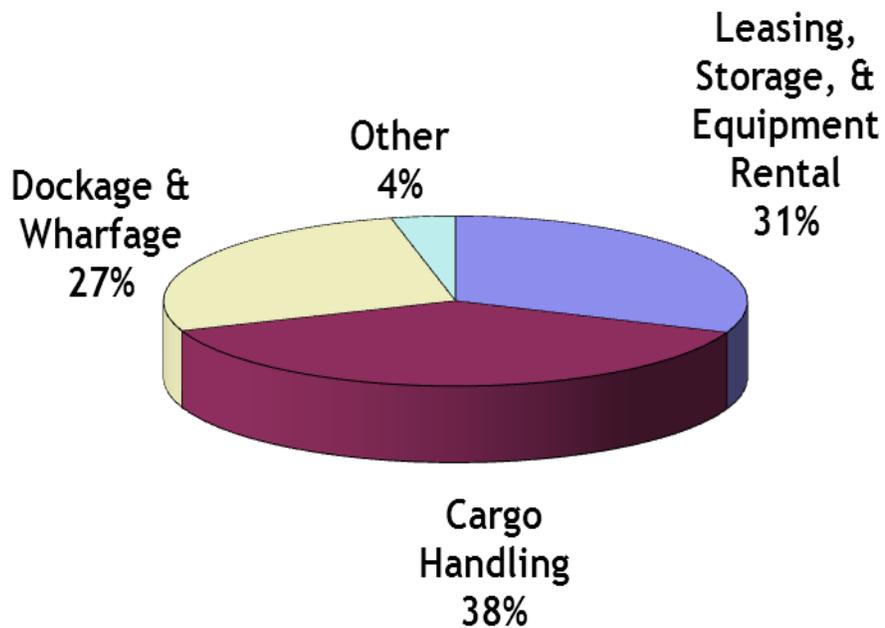
Vehicle tonnage growth is rebounding within the global economy and modestly growing demand for exported vehicles. Break-Bulk volume growth over FY 2012 is due to significant increases in imported Chilean fruit and imported steel for the local steel plant. Dry-Bulk growth is attributable to continued growth in exports of coal and a local refinery's Petrocoke product. Containerized tropical fruit volume grew due to improvements in vessel capacity and market demand. Significant reduction in liquid petroleum volume had an adverse impact on liquid bulk volume.

Operating Revenue: (\$'000)

During FY 2013, the Port earned \$36,750 as operating revenue. This is an increase of \$2,785 or 8.2% from the operating revenue of \$33,965 earned in FY 2012.

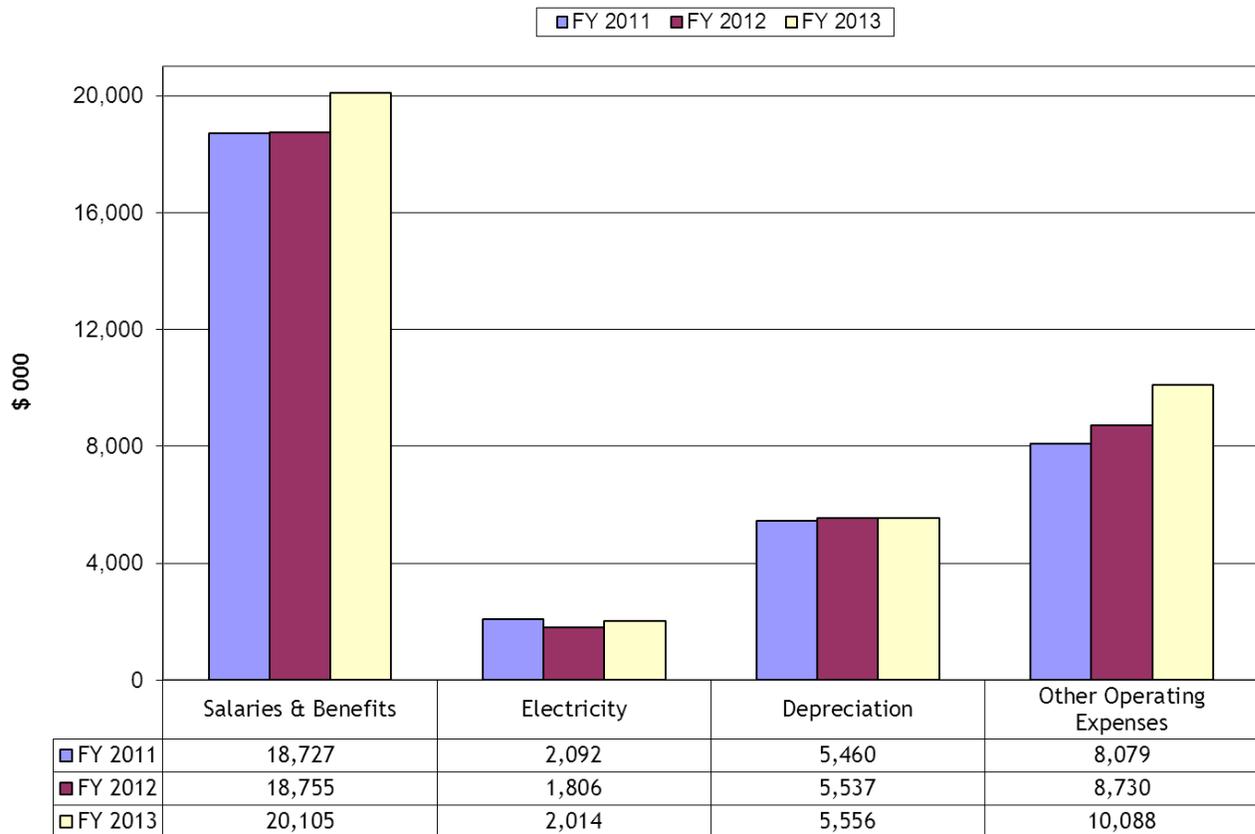
Cargo Handling revenue was \$1.8 million higher as a result of significant increases in Break-Bulk products: Chilean and Moroccan fruit and steel. Dockage and wharfage revenue increased by \$990 due to higher dry-bulk, container, Chilean fruit and steel tonnage.

Revenues by Source FY 2013



Operating Expenses: (\$'000)

Total operating expense of \$ 37,763 in FY 2013 is an increase of 8.4% from FY 2012.



Total Salaries and Benefit expense increased by \$1,350 mainly due to increases in hours required to move the expanded cargo volume, coupled with increases in wage rates. Electricity usage was reduced, but the cost of electricity grew by more than 15% compared to FY 2012. Professional fees, storm water charges, and repair and maintenance expense grew by \$1.1 million in FY 2013.

Capital Asset and Debt Administration

Capital Assets: The Port's investment in capital assets as of June 30, 2013, amounts to \$166,938 (net of accumulated depreciation). These capital assets include land, buildings and systems, docks and wharves, and machinery and equipment. The net increase in the Port's investment in capital assets in the current fiscal year was \$3,623, comprised of capital asset additions and one more year of depreciation.

Capital acquisitions in FY 2013 consisted of a Federal security project, rehabilitation of Berth 5, equipment purchases, Berth 4 reconstruction, and various other upgrades.

Capital Assets as of June 30				
(\$ '000)				
		<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and Improvements	\$	37,551	\$ 36,502	\$ 36,473
Buildings		89,452	88,891	88,650
Docks & Wharves		62,142	58,736	58,595
Equipment		31,680	30,551	29,563
Streets and Utilities		5,938	5,592	5,592
Vehicles and other assets		11,172	8,860	8,671
	Sub total	<u>237,935</u>	<u>229,132</u>	<u>227,544</u>
Accumulated Depreciation		<u>(72,225)</u>	<u>(66,770)</u>	<u>(61,242)</u>
	Total	165,710	162,362	166,302
Construction in progress		<u>1,228</u>	<u>953</u>	<u>183</u>
	Total	<u>\$ 166,938</u>	<u>\$ 163,315</u>	<u>\$ 166,485</u>

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

Note Payable: At the end of the current fiscal year, the Port had Note Payable's outstanding of \$26,707. Of this amount, \$5,348 comprises outstanding debt to the City of Wilmington incurred at the time of the acquisition of the Port by the Diamond State Port Corporation from the City of Wilmington in 1995. The Delaware River and Bay Authority is owed \$2,780, as part of its financial participation in Warehouse H. The Transportation Trust Fund of the Delaware Department of Transportation (DelDOT) is owed \$18,579 for funds borrowed in FY 2002. Additional Information is available in Note 8 of Notes to Financial Statements.

Financial Statements

Diamond State Port Corporation

Statements of Net Position

<i>June 30,</i>	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,582,540	\$ 4,889,309
Accounts receivable - net	2,922,619	2,256,677
Grant receivable	-	80,240
Inventory	867,444	920,071
Prepaid expenses and other assets	1,236,712	561,354
Total Current Assets	10,609,315	8,707,651
Restricted Assets		
Investments	19,890,251	13,894,702
Capital Assets - Non-Depreciable	26,732,641	26,457,611
Capital Assets - Depreciable, net	140,205,437	136,856,726
Total Assets	\$ 197,437,644	\$ 185,916,690
Liabilities and Net Position		
Current Liabilities		
Current portion of notes payable	\$ 1,324,195	\$ 1,638,292
Accounts payable	72,507	116,538
Accrued expenses	7,458,542	4,181,193
Accrued interest payable	159,087	170,680
Due to the State of Delaware - pension costs	76,343	80,078
Deferred revenue	38,791	42,350
Total Current Liabilities	9,129,465	6,229,131
Note Payable - net of current portion	25,382,972	26,705,966
Total Liabilities	34,512,437	32,935,097
Commitments and Contingencies		
Net Position		
Invested in capital assets - net of related debt	140,230,910	134,970,079
Restricted		
Capital Improvement Fund	19,890,251	13,894,702
Unrestricted	2,804,046	4,116,812
Total Net Position	162,925,207	152,981,593
Total Liabilities and Net Position	\$ 197,437,644	\$ 185,916,690

See accompanying independent auditor's report and notes to financial statements.

Diamond State Port Corporation

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2013	2012
Operating Revenue		
Handling	\$ 14,041,487	\$ 12,293,171
Dockage and wharfage	9,988,410	8,987,716
Leasing, storage and equipment rental	11,582,909	11,369,824
Other operating revenue	1,137,677	1,314,616
Total operating revenue	36,750,483	33,965,327
Operating Expenses		
Salaries and benefits	20,105,358	18,755,071
Materials, supplies and contractual services	12,102,153	10,536,661
Depreciation expense	5,556,163	5,536,629
Total operating expenses	37,763,674	34,828,361
Operating Loss	(1,013,191)	(863,034)
Nonoperating Income (Expense)		
Interest expense	(1,140,890)	(1,181,827)
Interest income	9,153	5,409
Total nonoperating income (expense)	(1,131,737)	(1,176,418)
Net Loss Before Capital Contributions	(2,144,928)	(2,039,452)
Capital Contributions		
Federal grant	2,088,542	515,804
State bond bill	10,000,000	-
Total capital contributions	12,088,542	515,804
Change in Net Position	9,943,614	(1,523,648)
Net Position, beginning	152,981,593	154,505,241
Net Position, ending	\$ 162,925,207	\$ 152,981,593

See accompanying independent auditor's report and notes to financial statements.

Diamond State Port Corporation

Statements of Cash Flows

<i>Years Ended June 30,</i>	2013	2012
Cash Flows From Operating Activities		
Cash received from customers and others	\$ 36,077,365	\$ 34,490,862
Cash payments to employees for services	(20,320,542)	(18,749,955)
Cash payments to suppliers for goods and services	(11,276,453)	(9,919,782)
Net cash provided by operating activities	4,480,370	5,821,125
Cash Flows From Investing Activities		
Sales of investments	5,288,964	3,414,326
Purchases of investments	(11,284,513)	(474,177)
Interest on cash and investments	9,106	5,441
Net cash (used) provided by investing activities	(5,986,443)	2,945,590
Cash Flows From Noncapital Financing Activities		
Acquisition and construction of capital assets	(42,449)	(30,605)
Net cash (used) by noncapital financing activities	(42,449)	(30,605)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(7,137,455)	(2,335,334)
Interest paid on loans	(1,151,282)	(1,183,867)
Principal paid on loans	(1,638,292)	(2,647,804)
Contributed capital	12,168,782	435,564
Net cash provided (used) by capital and related financing activities	2,241,753	(5,731,441)
Net Change in Cash and Cash Equivalents	693,231	3,004,669
Cash and Cash Equivalents, beginning of year	4,889,309	1,884,640
Cash and Cash Equivalents, end of year	\$ 5,582,540	\$ 4,889,309

Diamond State Port Corporation

Statements of Cash Flows

<i>Years Ended June 30,</i>	2013	2012
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (1,013,191)	\$ (863,034)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	5,556,163	5,536,629
Net change in the allowance for doubtful accounts	(952)	17,768
(Increase) decrease in:		
Accounts receivable	(664,990)	473,873
Inventory	52,626	(139,530)
Prepaid expenses and other assets	(675,311)	(14,262)
Increase (decrease) in:		
Accounts payable	(44,030)	(66,695)
Accrued expenses	1,277,349	816,002
Due to State of Delaware - pension costs	(3,735)	18,024
Deferred revenue	(3,559)	42,350
Net cash provided by operating activities	\$ 4,480,370	\$ 5,821,125
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 1,151,282	\$ 1,183,867
 Supplemental Schedules of Noncash Capital and Related Financing Activities		
Accretion of deferred charge	\$ 1,201	\$ 9,383
Cost of fixed asset disposals	\$ 101,573	\$ 8,125
Cost of capital asset additions	\$ 2,000,000	\$ -
Accrued expenses incurred for acquisition of capital assets	(2,000,000)	-
Cash paid for capital asset additions	\$ -	\$ -

See accompanying independent auditor's report and notes to financial statements.

Diamond State Port Corporation

Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

Diamond State Port Corporation

Notes to Financial Statements

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are shown net of an allowance for doubtful accounts of \$75,588 and \$76,541 as of June 30, 2013 and 2012, respectively.

Inventory

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

Restricted Investments

Restricted investments are stated at fair value based on quoted market prices.

Capital Assets

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

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

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

Revenues

The significant sources of operating revenue are:

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

Diamond State Port Corporation

Notes to Financial Statements

Dockage and wharfage -

represents charges assessed against vessels and barges for berthing at the wharf, pier, and bulkhead structures, handling lines for the docking and undocking of vessels, and represents charges assessed against vessels, or against another properly designated party, on all cargo passing or conveyed over, onto, or under wharves or between vessels when berthed at the wharf.

Leasing -

represents fees charged on a contractual basis for the rental of land or buildings at the Port. Rates are determined on a contract-by-contract basis.

Storage -

represents charges for the storage of cargo in the Port's dry, refrigerated and freezer warehouses and open areas.

Equipment rental -

represents charges for equipment use against vessels and barges that bring their own crews to load and unload cargo.

Capital Contributions

Capital contributions arise from State and Federal grants, generally restricted by the contributors to capital acquisition and construction. Most capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses. The 2013 contribution from the State of Delaware of \$10 million included \$2 million that can be used temporarily for operating needs and later transferred back to the restricted account. During the year June 30, 2013, no funds were temporarily withdrawn for operating needs. All prior borrowings have been repaid and there is no balance to be transferred to the capital account as of the date of this report.

Compensated Absences

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

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

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

Diamond State Port Corporation

Notes to Financial Statements

Deferred Charges

The Corporation incurred deferred charges on three refundings of the Port Debt Service Note in 2002, 2005, and 2013, which are being accreted over the remaining life of the Note at the time of each refunding.

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. Accordingly, through subsequent events, actual results could differ from those estimates.

3. Cash and Investments

The Cash Management Policy Board

The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware," of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State with certain limited exceptions.

Investment Guidelines and Management

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

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

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

The Corporation's accounts are considered Authority Accounts.

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The State's Cash Management Policy is available on the Internet at http://treasurer.delaware.gov/services/CMPBInvestmentGuidelines_2010-05.pdf

Diamond State Port Corporation

Notes to Financial Statements

Custodial Credit Risk

Collateralization Requirements: All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

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

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

At June 30, 2013 and 2012, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

Cash 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. As of June 30, 2013, deposits in excess of the FDIC limit were \$5,705,607. As of June 30, 2012, there were no deposits in excess of the FDIC limit.

4. Restricted Investments

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

<i>June 30,</i>	2013	2012
Capital improvements	\$ 19,890,251	\$ 13,894,702

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

Diamond State Port Corporation

Notes to Financial Statements

5. Capital Assets

Property and equipment activity during 2013 consisted of the following:

	2012	Additions	Retirements	Transfers	2013
Capital assets, non-depreciable					
Land	\$ 25,504,410	\$ -	\$ -	\$ -	\$ 25,504,410
Construction in progress	953,201	7,179,904	-	(6,904,874)	1,228,231
Total capital assets - non-depreciable	\$ 26,457,611	\$ 7,179,904	\$ -	\$ (6,904,874)	\$ 26,732,641
Capital assets, depreciable					
Land improvements	\$ 10,997,733	\$ -	\$ -	\$ 1,049,434	\$ 12,047,167
Buildings and warehouses	88,890,746	-	-	561,405	89,452,151
Docks, wharves, and rail	58,736,028	2,000,000	-	1,405,981	62,142,009
Equipment and cranes	30,550,733	-	(86,832)	1,215,663	31,679,564
Streets and water utilities	5,592,378	-	-	345,897	5,938,275
Vehicles and other	8,859,799	-	(14,741)	2,326,494	11,171,552
Total capital assets, depreciable	203,627,417	2,000,000	(101,573)	6,904,874	212,430,718

Diamond State Port Corporation

Notes to Financial Statements

	2012	Additions	Retirements	Transfers	2013
Less accumulated depreciation:					
Land improvements	8,071,172	384,403	-	-	8,455,575
Buildings and warehouses	24,935,232	2,012,968	-	-	26,948,200
Docks, wharves, and rail	13,275,230	1,273,807	-	-	14,549,037
Equipment and cranes	10,786,687	1,265,226	(86,832)	-	11,965,081
Streets and water utilities	2,810,192	273,692	-	-	3,083,884
Vehicles and other	6,892,178	346,067	(14,741)	-	7,223,504
Total accumulated depreciation	66,770,691	5,556,163	(101,573)	-	72,225,281
Total capital assets, depreciable, net	\$ 136,856,726	\$ (3,556,163)	\$ -	\$ 6,904,874	\$ 140,205,437

Diamond State Port Corporation

Notes to Financial Statements

Property and equipment activity during 2012 consisted of the following:

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

Diamond State Port Corporation

Notes to Financial Statements

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

Diamond State Port Corporation

Notes to Financial Statements

Depreciation expense was \$5,556,163 and \$5,536,629 for 2013 and 2012, respectively.

Construction in progress was \$1,228,231 with additional contractually committed costs to complete the projects in process of approximately \$1,423,891 as of June 30, 2013.

6. Leasing Revenue

The Corporation leases certain Port terminal and storage space to tenants. Total rental income under these operating leases amounted to \$5,600,576 and \$5,652,676 for 2013 and 2012, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases with original lease terms in excess in one year as of June 30, 2013.

Years Ending June 30,

2014	\$	5,354,486
2015		4,479,181
2016		4,575,110
2017		4,693,923
2018		4,746,370
Thereafter		39,562,081
	\$	63,411,151

7. Revolving Line of Credit

The Corporation has a \$3,000,000, unsecured, revolving line of credit from M & T Bank, none of which was outstanding at June 30, 2013 and 2012. 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.

Diamond State Port Corporation

Notes to Financial Statements

8. Long-Term Debt

The following is a summary of debt transactions for the years ended June 30, 2013 and 2012.

2013			
	Outstanding June 30, 2012	Payments and Other Reductions	Outstanding June 30, 2013
Transportation Trust Fund Note	\$ 19,432,759	\$ (853,489)	\$ 18,579,270
City of Wilmington Port Debt Service Notes	5,956,685	(608,424)	5,348,261
Delaware River and Bay Authority	2,954,814	(175,178)	2,779,636
Total notes payable	28,344,258	\$ (1,637,091)	26,707,167
Notes payable - current	1,638,292		1,324,195
Notes payable - long-term	\$ 26,705,966		\$ 25,382,972
2012			
	Outstanding June 30, 2011	Payments and Other Reductions	Outstanding June 30, 2012
Transportation Trust Fund Note	\$ 20,253,326	\$ (820,567)	\$ 19,432,759
City of Wilmington Port Debt Service Notes	7,129,967	(1,173,282)	5,956,685
Delaware River and Bay Authority	3,170,165	(215,351)	2,954,814
Wilmington Trust Company	207,305	(207,305)	-
Bank of America - Master Lease	221,917	(221,917)	-
Total notes payable	30,982,680	\$ (2,638,422)	28,344,258
Notes payable - current	2,308,485		1,638,292
Notes payable - long-term	\$ 28,674,195		\$ 26,705,966

Diamond State Port Corporation

Notes to Financial Statements

Interest charges during 2013 and 2012 were as follows:

	2013			
	Accrued Interest June 30, 2012	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2013
Transportation Trust Fund Note	\$ 64,614	\$ 771,413	\$ (774,251)	\$ 61,776
City of Wilmington Port Debt Service Notes	98,679	283,666	(291,983)	90,362
Delaware River and Bay Authority	7,387	85,811	(86,249)	6,949
Total accrued interest	\$ 170,680	\$ 1,140,890	\$ (1,152,483)	\$ 159,087
	2012			
	Accrued Interest June 30, 2011	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2012
Transportation Trust Fund Note	\$ 67,342	\$ 804,445	\$ (807,173)	\$ 64,614
City of Wilmington Port Debt Service Notes	110,159	318,210	(329,690)	98,679
Delaware River and Bay Authority	3,963	49,500	(46,076)	7,387
Wilmington Trust Company	639	6,416	(7,055)	-
Bank of America - Master Lease	-	3,256	(3,256)	-
Total accrued interest	\$ 182,103	\$ 1,181,827	\$ (1,193,250)	\$ 170,680

Diamond State Port Corporation

Notes to Financial Statements

Transportation Trust Fund Note

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

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next twenty-two years. Additionally, the State appropriated \$10,000,000 to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are due March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next twenty years. The interest rate was 3.99% during 2013 and 2012. The loan matures March 2029.

Principal and interest payments made on the note were \$853,489 and \$774,251, respectively, during 2013, and \$820,567 and \$807,173, respectively, during 2012.

Interest expense charged to operations during 2013 and 2012 was \$771,413 and \$804,445, respectively.

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

Fiscal Year	Principal	Interest	Total
2014	\$ 887,732	\$ 740,009	\$ 1,627,741
2015	923,349	704,392	1,627,741
2016	960,395	667,346	1,627,741
2017	998,927	628,814	1,627,741
2018	1,039,005	588,736	1,627,741
2019-2023	5,854,788	2,283,917	8,138,705
2024-2028	7,127,394	1,011,311	8,138,705
2029	787,680	26,190	813,870
	<u>\$ 18,579,270</u>	<u>\$ 6,650,715</u>	<u>\$ 25,229,985</u>

Diamond State Port Corporation

Notes to Financial Statements

City of Wilmington Notes Payable

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

- a. Port Deferred Payment Note. In 2002, the remaining amounts due were prepaid to the City using the proceeds from the Transportation Trust Fund Loan.
- b. Port Debt Service Note. The Port Debt Service Note requires payments to the City in amounts which equal the debt service of certain Port-related City general obligation bonds, with interest rates from 3.2% to 6.4%.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund \$21,335,000 of outstanding 1992 A, B and C Series general obligation bonds with an average interest rate of 6.16%. The Port-related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting charge of \$261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by \$281,293 over eleven years resulting in an economic gain. The deferred charge on the refunding is accreted over the eleven-year life of the debt. The deferred charge balance as of June 30, 2013 and 2012 was \$0 and \$5,303, respectively.

On October 5, 2004, the City issued \$12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund \$11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were \$3,992,497 and \$3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting charge of \$397,862, it reduces the Corporation's debt service payments by \$251,815 over the next seventeen and a half years resulting in an economic gain. The deferred charge on the refunding is accreted over the seventeen and a half year life of the debt. The deferred charge balance on the 2004 refunding as of June 30, 2013 and 2012 was \$256,327 and \$279,839, respectively.

On March 1, 2013, the City issued \$37,885,000 of general obligation bonds with interest rates of 3-5% to advance refund \$37,190,000 of outstanding 2006 A Series general obligations bonds with interest rates of 3.5-5%. The Port-related portions of the new bonds issues 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 accounting charge of \$405,000, which is accreted over the next three and a half year life of the Port-related debt. The deferred charge balance on the 2013 refunding as of June 30, 2013 was a credit of \$377,386.

Diamond State Port Corporation

Notes to Financial Statements

Total deferred charge balance as of June 30, 2013 and 2012 was \$(121,059) and \$285,142, respectively. The amortization of deferred charge of \$1,201 and \$9,383 during 2013 and 2012, respectively, is charged to interest expense.

Principal and interest payments made on the note were \$609,625 and \$290,783, respectively, during 2013, and \$1,182,665 and \$320,307, respectively, during 2012.

Interest expense on the note in 2013 and 2012 was \$311,281 and \$318,210, respectively.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 255,957	\$ 200,209	\$ 456,166
2015	701,468	232,697	934,165
2016	741,713	195,008	936,721
2017	683,008	157,052	840,060
2018	253,314	135,920	389,234
2019-2023	2,591,742	353,078	2,944,820
	5,227,202	1,273,964	6,501,166
Deferred charge on refunding	121,059	-	121,059
Total	\$ 5,348,261	\$ 1,273,964	\$ 6,622,225

Delaware River and Bay Authority Obligation

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

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

Principal and interest payments made on the note were \$175,178 and \$86,249, respectively, during 2013, and \$215,351 and \$46,076, respectively, during 2012.

Interest expense incurred on this obligation was \$85,811 and \$49,500 in 2013 and 2012, respectively.

Diamond State Port Corporation

Notes to Financial Statements

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

Fiscal Year	Principal	Interest	Total
2014	\$ 180,506	\$ 80,921	\$ 261,427
2015	185,997	75,430	261,427
2016	191,654	69,773	261,427
2017	197,483	63,944	261,427
2018	157,555	103,872	261,427
2019-2023	926,373	380,761	1,307,134
2024-2027	940,068	105,643	1,045,711
	<u>\$ 2,779,636</u>	<u>\$ 880,344</u>	<u>\$ 3,659,980</u>

9. Contributed Capital

Since its inception and for 2013 and 2012, the Corporation has received capital contributions from the State of Delaware and Federal grants as follows:

	Inception to Date	2013	2012
State of Delaware	\$ 187,515,000	\$ 10,000,000	\$ -
Federal	5,671,212	2,088,542	515,804
Total	\$ 193,186,212	\$ 12,088,542	\$ 515,804

Diamond State Port Corporation

Notes to Financial Statements

10. Pension Plan and Other Postretirement Employee Benefits

Plan Description

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

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

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

Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The Corporation contributed 100% of its annual required contribution during the fiscal years 2013 and 2012. Accordingly, there was no net pension obligation as of June 30, 2013, and 2012. The annual pension cost was equal to the annual required contribution of \$858,660 in 2013 and \$815,199 in 2012.

Diamond State Port Corporation

Notes to Financial Statements

The annual required contribution for the current year was determined as part of the June 30, 2012 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 7.5% investment rate of return and (b) projected salary increases of 4.25% which included an inflation component of 3.25%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 is 15 years.

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

The following provides an analysis of the funding progress of the Plan as of June 30, 2012, 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, 2012	\$18,929,600	\$23,039,400	\$ 4,109,800	82.2 %	\$12,229,100	33.6 %

Other Postretirement Employee Benefits

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

11. Lease Commitments

The Corporation leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was \$543,589 and \$483,896 for 2013 and 2012, respectively.

Diamond State Port Corporation

Notes to Financial Statements

12. Risk Management

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries and illnesses to employees, and natural disasters. The Corporation has obtained commercial insurance to cover the risk of these losses with the exception of workers' compensation claims, where the Corporation is self-insured through the State of Delaware's self-insurance program. Settled claims have not exceeded the commercial insurance limits in any of the past five fiscal years. The Corporation was obligated to pay to the State's program a monthly charge equal to \$1.75 and \$1.95 per \$100 of payroll which was \$260,519 and \$273,662 for the years ended June 30, 2013 and 2012, respectively.

13. Deferred Compensation Plan

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

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

14. Major Customers

Two major customer groups of the Corporation accounted for approximately 24.7% and 20.2%, respectively, of operating revenues (44.9% total) for the year ended June 30, 2013. The same two customer groups accounted for approximately 22.7% and 21.8%, respectively, for the year ended June 30, 2012.

Diamond State Port Corporation

Notes to Financial Statements

15. Collective Bargaining

The Corporation employs two hundred forty-seven (247) full-time and part-time benefits eligible employees. Seventy-five (75) full-time employees are represented by the International Longshoremen's Association (ILA) - Local 1694-1. The most recent collective bargaining agreement was ratified in March 2012 for the period October 1, 2010 through September 30, 2013. One hundred three (103) part-time employees (only those working over 800 hours in a previous calendar year) are also represented by the International Longshoremen's Association, under the same collective bargaining agreement. Fifteen (15) full-time employees are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement expiring September 30, 2014. There are fifty-four (54) administrative employees not covered under collective bargaining agreements.

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, 2013 the Corporation had construction in progress of \$1,228,231. Funding for capital projects has been received from operations, the State of Delaware and the U.S. Department of Homeland Security. As of June 30, 2013, the Corporation had \$19,890,251 in investments committed to capital projects (Note 4).

Environmental Contingencies

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

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

Litigation and Claims

The Corporation is party to various claims and legal proceedings which normally occur in governmental and port operations.

Diamond State Port Corporation

Notes to Financial Statements

The Corporation is named a defendant in a lawsuit brought by the City of Wilmington, Delaware (the "City") relating to stormwater charges billed by the City since 2009. As per the litigation, the City is seeking over \$2,000,000 for amounts past due including late fee penalties. The Corporation's management believe the charges billed by the City are inappropriate and contrary to the Port Acquisition Agreement entered into by the two parties. As of June 30, 2013, the Corporation has accrued \$2,133,113 of the stormwater charges and it is included in accrued expenses in the accompanying balance sheets. For the years ended June 30, 2013 and 2012, the Corporation recorded \$719,916 and \$519,252, respectively, to operations for the stormwater charges billed by the City. If the Corporation is unsuccessful in winning the lawsuit, the amount of ultimate loss to the Company, if any, may exceed the amount accrued.

Beginning in July 2010, the Corporation was a defendant in a lawsuit filed by a construction contractor. The case arose from claims on a project involving the rehabilitation and reconstruction of Berth 4. The construction contractor alleged that it had incurred additional costs unreimbursed by the Corporation and originally sought an unspecified amount of compensatory damages. During July 2013, the construction contractor accepted a settlement proposed by the Corporation. As a result, the Corporation was required to pay a portion of the construction contractor's costs in the amount of \$2,000,000. For the year ended June 30, 2013, the Corporation capitalized these costs awarded to the construction contractor, as they related to construction costs. This payment completed the Corporation's involvement in the matter.

17. Subsequent Events

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

Required Supplemental Information

Diamond State Port Corporation
Pension Funding Status and Progress

The following provides an analysis of the funding progress of the Plan as of June 30, 2012, 2011, and 2010:

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, 2012	\$18,929,600	\$23,039,400	\$ 4,109,800	82.2 %	\$12,229,100	33.6 %
June 30, 2011	\$17,197,500	\$20,631,700	\$ 3,434,200	83.4 %	\$11,150,200	30.8 %
June 30, 2010	\$15,418,000	\$18,354,000	\$ 2,936,000	84.0 %	\$11,224,000	26.2 %



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Independent Auditor's 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Diamond State Port 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 Diamond State Port Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diamond State Port 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.



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

Compliance and Other Matters

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

Purpose of this Report

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

BDO USA, LLP

Certified Public Accountants
September 30, 2013



Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

Report on Compliance for Each Major Federal Program

We have audited Diamond State Port Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2013. Diamond State Port Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Diamond State Port 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Diamond State Port Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major program. However, our audit does not provide a legal determination of Diamond State Port Corporation's compliance.

Opinion on Major Federal Program

In our opinion, Diamond State Port Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.



Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

Report on Internal Control Over Compliance

Management of the Diamond State Port 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 Diamond State Port Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major program and to test and report on internal control over compliance in accordance with OMB Circular A- 133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Diamond State Port Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. 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 requirement of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Certified Public Accountants
September 30, 2013

Diamond State Port Corporation
Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Project Code	Federal CFDA Number	Passthrough Entity Identifying Number	Grant Period	Expenditures Total
United States Department of Homeland Security Passed through the Maritime Exchange for the Delaware River and Bay Port Security Grant Program	2010-PO-T0-K007	97.056	2010-PU-T0-K007	01/11 - 10/14	\$ 2,088,542
Total Expenditures of Federal Awards					\$ 2,088,542

Diamond State Port Corporation

Notes to the Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

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

Diamond State Port Corporation
Schedule of Findings and Questioned Costs

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

Financial Statements

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

Federal Awards

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

Diamond State Port Corporation

Schedule of Findings and Questioned Costs

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

7. Identification of Major Programs:

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

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

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

Section II. Financial Statement Findings

None

Section III. Federal Award Findings and Questioned Costs

None