Gunnip&company LLP

Certified Public Accountants and Consultants

State of Delaware
Diamond State Port Corporation

(A Component Unit of the State of Delaware)

Financial Statements

Years Ended June 30, 2018 and 2017

State of Delaware
Diamond State Port Corporation

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Gunnip&company LLP
Certified Public Accountants and Consultants

Michael A. Trolio CPA
Donald J. Bromley CPA
E. Adam Gripton CPA
Katherine L. Silicato CPA
George W. Hager CPA
Robert T. Wright CPA
James R. Selsor, Jr. CPA

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 Year Ended June 30, 2018, 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

Little Falls Centre Two 2751 Centerville Road Suite 300 Wilmington, DE 19808-1627
Phone: 302.225.5000 Fax: 302.225.5100 Web: www.gunnip.com

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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, 2018, 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.

Other Matters

The financial statements of the Corporation as of and for the Fiscal Year Ended June 30, 2017 were audited by other auditors whose report dated September 18, 2017 expressed an unmodified opinion on those financial statements.

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 Government Accounting Standards Board (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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 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.

Gunnip & Company LLP

September 21, 2018
Wilmington, 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, 2018 and 2017. 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, 2018 by $215,413 (net position), as compared to $208,413 at June 30, 2017. Included in this amount at June 30, 2018 are net investment in capital assets of $196,891 and restricted net position of $15,500, after providing for relevant liabilities for payments to capital projects vendors and for debt service payments. Included in the net position at June 30, 2017 are net investment in capital assets of $190,417 and restricted net position of $16,152, after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.

- The Corporation's total net position increased by $7,000 during Fiscal Year 2018. The Corporation incurred a net loss of ($8,000) before capital appropriations of $15,000 from the State of Delaware (the State). The comparable net position change for Fiscal Year 2017 was $14,382. The Corporation incurred net loss of ($5,261) before capital appropriations of $19,643 from the State.

- 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. The pension information is reported under Deferred Outflows of Resources, and Net Pension Liability and Deferred Inflow of Resources in the Corporation's Statement of Net Position. For Fiscal Year 2017, the Corporation also adopted GASB No. 82, which was an amendment to GASB No, 68, but which had no impact on the Corporation's financial statements. On the Corporation's Statements of Revenues, Expenses, and Changes in Net Position, pension expenses and pension contributions are shown under Operating Expenses.

- During Fiscal Year 2018 the Corporation entered into an agreement with GT USA Wilmington, LLC to negotiate a public/private partnership (P3) to improve, develop, finance and operate via a long-term concession arrangement for both port-related infrastructures: the facility known as the Port of Wilmington and the facility known as Edgemoor.

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, including deferred outflow of resources and liabilities including deferred inflows of resources, with the difference 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 the 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 the GASB. The Corporation 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.

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 $215,413 at the close of Fiscal Year 2018; $208,413 at the close of Fiscal Year 2017; and $194,031 at the close of Fiscal Year 2016.

Corporation's Net Position

(Expressed in Thousands)

	FY 2018	FY 2017	FY 2016
Current and restricted assets	$ 25,265	$ 25,038	$ 34,592
Capital assets – net of accumulated depreciation	223,556	214,942	187,789
Total Assets	248,821	239,980	222,381
Deferred outflows of resources			
Refunding of debt	125	153	180
Pension contributions	1,141	1,155	1,203
Pension plan investment return differences	521	1,559	-
Pension plan change in assumptions	117	-	-
Pension plan experience differences	-	435	1,169
Total Deferred Outflows	1,904	3,302	2,552
Current liabilities	6,397	4,938	5,293
Notes payable – net of current portion	23,601	23,228	19,678
Net pension liability	4,779	5,975	5,351
Total Liabilities	34,777	34,141	30,322
Deferred inflows of resources			
Refunding of debt	-	-	46
Pension plan change in assumptions	-	728	-
Pension plan experience differences	534	-	-
Pension plan investment return differences	-	-	533
Total Deferred Inflows	534	728	579
Net Position:			
Net investment in capital assets	196,891	190,417	166,365
Restricted – capital improvement fund	15,500	16,152	20,754
Unrestricted	3,022	1,844	6,912
Total Net Position	$215,413	$208,413	$194,031

The increase in capital assets, net from $214,942 in Fiscal Year 2017 to $223,556 in Fiscal Year 2018 is a result of new capital expenditures of $16,158 during the fiscal year offset by depreciation expense of $7,511 and net retirements of $32. New capital expenditures for Fiscal Year 2018 included payments on two new gantry cranes, warehouse improvements, racks, rehabilitation of berths 1, 2 & 3, and container yard improvements. The increase in capital assets, net from $187,789 in Fiscal Year 2016 to $214,942 in Fiscal Year 2017 was a result of new capital expenditures of $33,740 during the fiscal year, offset by depreciation expense of $6,565 and net retirements of $22. New capital expenditures for Fiscal Year 2017 included the acquisition of the Edgemoor Property, payments on two new gantry cranes, completion of Berth 5, vehicles, equipment, and flood abatement. The increase in capital assets, net from $169,835 in Fiscal Year 2015 to $187,789 in Fiscal Year 2016 was 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 included payments on two new gantry cranes, Berth 5 construction, vehicles, equipment, and improvements to existing infrastructure. 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 91% 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 2018, the value of these restricted assets includes grants of $15,000 from the State for infrastructure and other capital improvements reduced by expenditure and outstanding liabilities incurred. For Fiscal Year 2017, the value of these restricted assets includes grants of $19,643 from the State for infrastructure improvements to Berth 5 and other capital improvements, reduced by expenditure and outstanding liabilities incurred. For Fiscal Year 2016, the value of these restricted assets include $16,311 from the State and $2,737 from the federal TIGER grant for infrastructure improvement to Berth 5, 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, $3,022, $1,844 and $6,912 as of June 30, 2018, 2017 and 2016, respectively, represents *unrestricted net position* available for any Corporation-related business use. As disclosed on the Statements of Net Position, the increase of $1,178 from the unrestricted net position of $1,844 as of June 30, 2017 reflects an increase in total current assets; a decrease in current liabilities, which excludes the current portion of notes payable and accounts payable – capital; plus the changes in net pension liability and total deferred inflows; less the change in total deferred outflows. The decrease of $5,068 to $1,844 as of June 30, 2017 from the unrestricted net position of $6,912 as of June 30, 2016 reflects a decrease in total current assets, which includes the use of unrestricted cash for the purchase of the Edgemoor property; less the increase in current liabilities excluding the current portion of notes payable; plus the changes in: pension contributions, pension plan experience differences, pension plan change in assumptions, and pension plan investment return differences, less the change in net pension liability.

Corporation Activities.

Corporation activities decreased the net position by $8,000 during Fiscal Year 2018, decreased by $5,261 during Fiscal Year 2017, and decreased by $2,489 during Fiscal Year 2016. Key elements of this change are as follows:

Corporation Activities

(Expressed in Thousands)

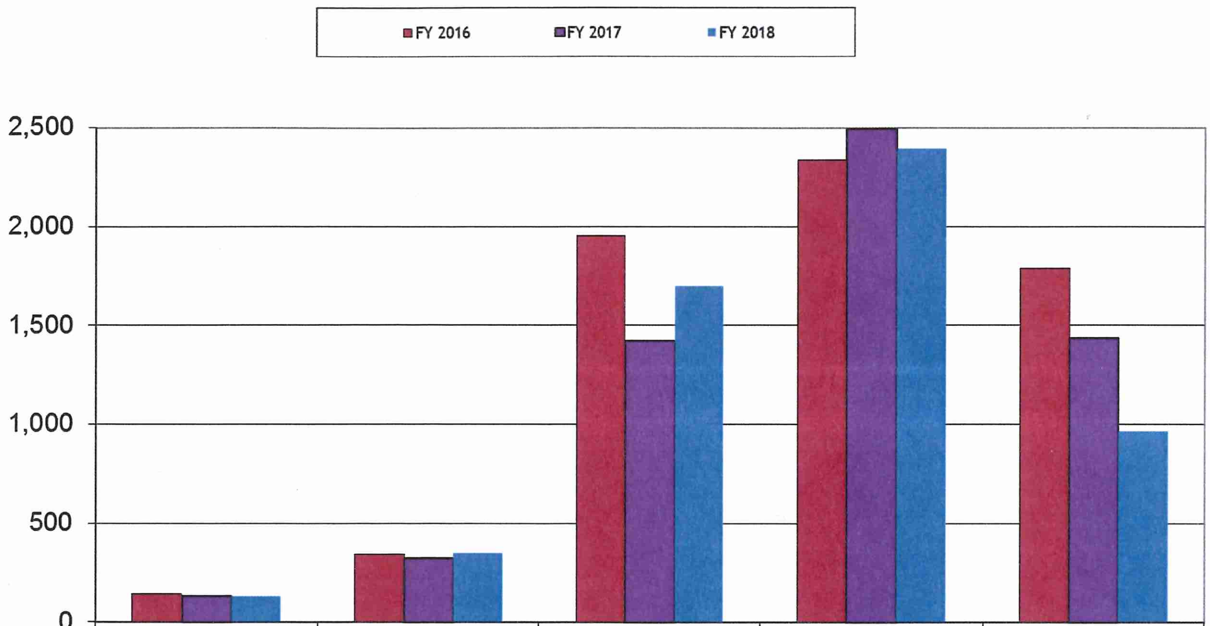
	FY 2018	FY 2017	FY 2016
Operating revenues			
Cargo handling	$15,770	$14,727	$14,383
Leasing, storage, and equipment rental	12,506	12,048	12,093
Dockage and wharfage	9,994	9,270	10,550
Other operating revenue	1,534	1,258	1,392
Total operating revenues	39,804	37,303	38,418
Operating expenses			
Salaries and related benefits	26,101	23,646	23,515
Pension expense	1,121	1,195	1,085
Pension contributions	(1,141)	(1,155)	(1,202)
Materials, supplies, and contractual services	13,397	11,518	10,745
Depreciation	7,511	6,565	5,989
Total operating expenses	46,989	41,769	40,132
Operating loss	(7,185)	(4,466)	(1,714)
Nonoperating income (expenses)			
Interest expense	(961)	(862)	(836)
Interest income	178	89	61
Loss on retirements of assets	(32)	(22)	-
Total nonoperating expenses	(815)	(795)	(775)
Net loss before capital contributions	$(8,000)	$(5,261)	$(2,489)

As part of the GASB Nos. 68 and 71, pension expense and pension contributions offset operating expenses by $20 in Fiscal Year 2018, ($40) in Fiscal Year 2017 and by $117 in Fiscal Year 2016.

Cargo Tonnage:

A total of 5.54 million tons of cargo passed over the Corporation's facilities in Fiscal Year 2018; a decrease over the 5.80 million tons handled in Fiscal Year 2017, which itself was a decrease over the 6.56 million tons handled in Fiscal Year 2016.

Cargo Volume by groups ('000 short tons)



	Vehicles	Break-Bulk	Dry-Bulk	Containers	Liquid-Bulk
FY 2016	141	343	1,954	2,337	1,789
FY 2017	130	321	1,421	2,493	1,437
FY 2018	132	348	1,701	2,392	964

For Fiscal Year 2018, Vehicles volume increased 2% over the prior year. Break-Bulk volume was 8% over the prior year due to increased receipts of steel and Moroccan products. Dry-Bulk tonnages finished 280,000 tons or 20% over the prior year. While Petrolcoke shipments decreased by 113,000 tons, the reduction was offset by a 336,000 ton increase in salt and sand imports due to a more severe winter than the prior year and a 57,000 ton increase in minerals and ores. Containers decreased by 101,000 tons from the prior year due to a decrease in southbound volumes. Liquid-Bulk tonnage was lower than the prior year due to decreased vessel petroleum imports for another fiscal year.

For Fiscal Year 2017, Vehicles volume decreased 8% over the prior year. Break-Bulk volume was lower than the prior year by 6% due to reduced receipts of steel and Argentine products. Dry-Bulk tonnages finished 533,000 tons under the prior year. While Petrolcoke shipments increased by 225,000 tons, the gain was offset by a 580,000 ton decrease in salt and sand imports due to the mild winter and a 178,000 ton decrease in minerals and ores. Containers exceeded the prior year by 156,000 tons as both Dole and Chiquita continued the extra vessels added to their weekly schedules. Liquid-Bulk tonnage was lower than the prior year due to decreased petroleum and juice imports.

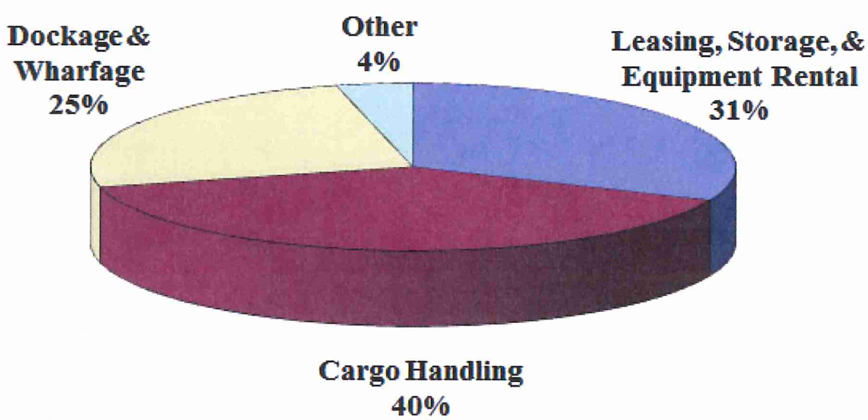
For Fiscal Year 2016, Vehicles volume increased 40% over the prior year, mainly due to the Fiat-Chrysler contract. Break-Bulk volume was lower than the prior year by 13%. Wet weather in Chile caused a three-week delay in the arrival of Chilean fruit and the discovery of Mediterranean fruit fly larvae 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.

Operating Revenues:

During Fiscal Year 2018, the Corporation earned $39,804 in operating revenues. This is an increase of $2,501 or 6.7% from the operating revenue of $37,303 earned in Fiscal Year 2017.

Additional Dockage, Wharfage and Cargo Handling revenues of $1,767 were received due to the increase in Break-Bulk & Dry-Bulk tonnage. The remaining $734 received in the Fiscal Year reflects additional Lease Revenue and Equipment Rental necessary to handle the increased Dry Bulk tonnage.

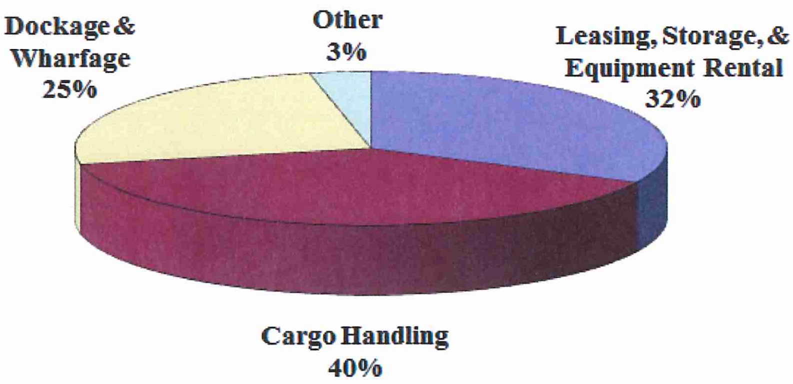
Revenues by Source FY 2018



During Fiscal Year 2017, the Corporation earned $37,303 in operating revenues. This is a decrease of $1,115 or 2.9% from the operating revenue of $38,418 earned in Fiscal Year 2016.

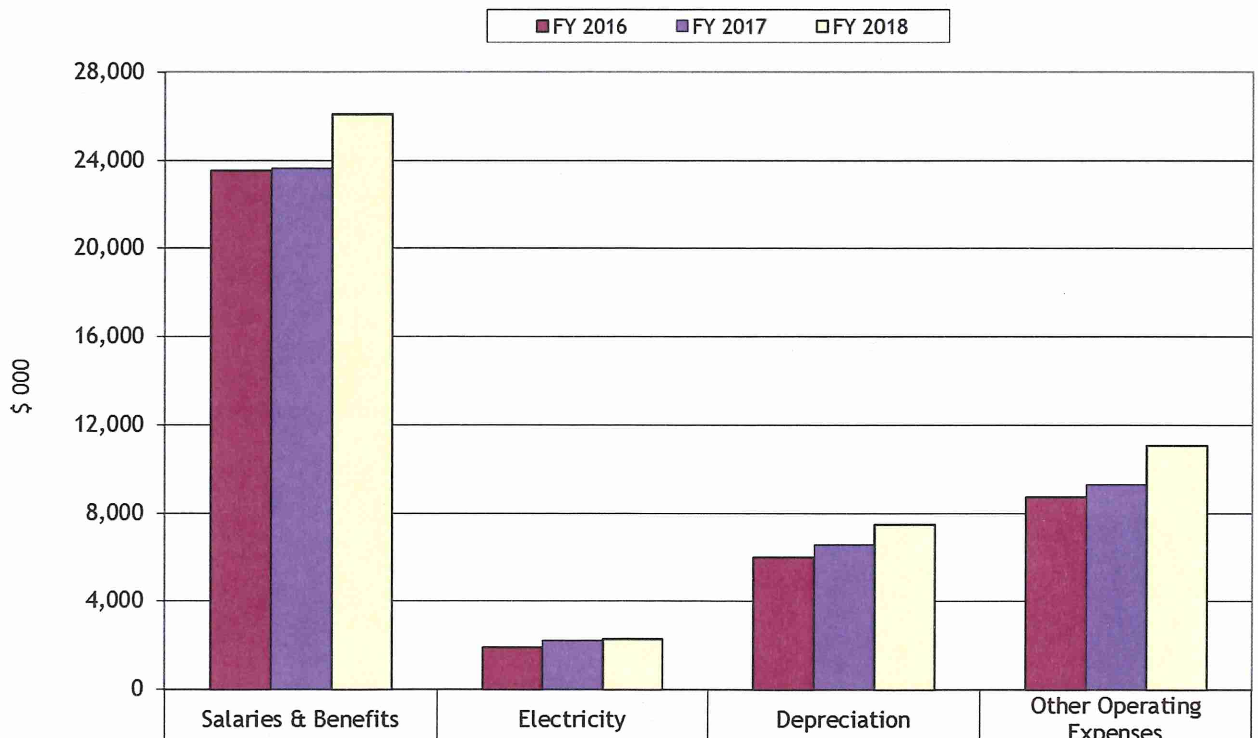
Dockage and Wharfage revenues were $1,280 lower as a result of decreases in Dry-Bulk, Steel, and Liquid-Bulk tonnage and vessels.

Revenues by Source FY 2017



Operating Expenses: ($'000)

Total operating expenses of $46,989 in Fiscal Year 2018 is an increase of 12.7% from Fiscal Year 2017.



	Salaries & Benefits	Electricity	Depreciation	Other Operating Expenses
FY 2016	23,515	1,920	5,989	8,708
FY 2017	23,646	2,238	6,565	9,320
FY 2018	26,101	2,288	7,511	11,089

For Fiscal Year 2018, total Salaries and Benefits expense shown is $2,455 higher due to the settlement of both the ILA and Teamster labor contracts and the additional labor required to comply with the new Food Safety Management Act (FSMA) regulations. Electricity expense increased $50 due to an extreme cold snap endured by the Northeast this winter which resulted in a 130% rate spike for February's usage. Other Operating Expenses increased by $1,769. Fossil fuel expense increased $789 as a result of higher petroleum prices along with the two new gantry cranes being less fuel efficient due to stricter pollution control standards. The cost of complying with FSMA requirements resulted in $706 in additional supplies, parts and professional fees expense, while the cost of maintaining the ever growing and aging equipment resulted in Repair and Maintenance expenses increasing $274.

For Fiscal Year 2017, total Salaries and Benefits expense shown is $131 higher due to the increase in labor hours required to handle palletized bananas. Electricity expense increased $318 due to an increase in rates, and $272 in expenses for the Edgemoor property's power sub-station. Other Operating Expenses increased by $612, including an additional $412 for two dredges of which the second dredge had a 52% higher rate per cubic yard.

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.

Capital Asset and Debt Administration

Capital Assets: The Corporation's total investment in capital assets as of June 30, 2018, 2017, and 2016 amounts to $223,556, $214,942, and $187,789 (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 2018 was $8,614, 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 2017 was $27,153, 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 2016 was $17,954 comprised of an increase in capital asset additions and one more year of depreciation and retirements.

Capital investments in Fiscal Year 2018 consisted of payments on two new gantry cranes, warehouse improvements, racks, and rehabilitation of berths 1, 2 & 3 and container yard improvements. Capital investments in Fiscal Year 2017 included the acquisition of the Edgemoor property, payments on two new gantry cranes, completion of Berth 5, vehicles, equipment and flood abatement. Capital investments in Fiscal Year 2016 included additional payments on two new gantry cranes, Berth 5 construction, vehicles, equipment and improvements to existing infrastructure.

Capital Assets
(Expressed in Thousands)

		2018	2017	2016
Land and improvements		$ 58,313	$ 56,092	$ 38,022
Buildings		98,223	95,714	92,665
Docks and wharves		74,410	73,141	63,889
Equipment		69,257	39,939	38,460
Streets and utilities		6,023	6,011	5,978
Vehicles and other assets		12,909	12,744	12,543
	Subtotal	319,135	283,641	251,557
Accumulated depreciation		(103,436)	(96,093)	(89,626)
	Totals	215,699	187,548	161,931
Construction in progress		7,857	27,394	25,858
	Totals	$223,556	$214,942	$187,789

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

Notes Payable: At the end of the current fiscal year, the Corporation had notes payable outstanding of $24,041 including the current portion of $440. An outstanding debt of $2,592 to the City remains, which was incurred at the time of the acquisition of the Port of Wilmington by the Corporation from the City in 1995. The Delaware River and Bay Authority (DRBA) is owed $1,866 as part of its financial participation in Warehouse H. The Transportation Trust Fund of the Delaware Department of Transportation (DelDOT) is owed $14,583 for funds borrowed in Fiscal Year 2002. During Fiscal Year 2017, a $5,000 term loan from TD Bank was secured to purchase the Edgemoor property. Additional information is available in Note 8 of the Notes to Financial Statements.

As of June 30, 2017, the Corporation had notes payable outstanding of $24,678, including the current portion of $1,450. Of this amount, $2,845 comprised outstanding debt to the City, DRBA was owed $2,024, DelDOT's Transportation Trust Fund was owed $14,809 and TD Bank was owed $5,000

As of June 30, 2016, the Corporation had notes payable outstanding of $21,557, including the current portion of $1,879. Of this amount, $3,528 comprised outstanding debt to the City, DRBA was owed $2,221, and DelDOT's Transportation Trust Fund was owed $15,808.

Financial Statements

Diamond State Port Corporation
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Current assets		
Cash and cash equivalents	$ 4,916,700	$ 4,755,247
Accounts receivable, net	3,028,431	2,160,186
Inventory	1,076,000	1,111,337
Prepaid expenses and other assets	743,897	859,544
Total current assets	9,765,028	8,886,314
Restricted assets		
Cash equivalents	1,072,249	4,720,217
Investments	14,428,002	11,432,208
Total restricted assets	15,500,251	16,152,425
Capital assets - nondepreciable	44,341,403	63,845,340
Capital assets - depreciable, net	179,214,461	151,096,292
Total capital assets, net	223,555,864	214,941,632
Total assets	248,821,143	239,980,371
Deferred outflows of resources		
Refunding of debt	124,782	153,058
Pension contributions (Note 10)	1,141,459	1,154,543
Pension plan investment return differences (Note 10)	521,235	1,559,264
Pension plan change in assumptions (Note 10)	116,545	-
Pension plan experience differences (Note 10)	-	435,418
Total deferred outflows	1,904,021	3,302,283
Current liabilities		
Current portion of notes payable	439,977	1,449,874
Accounts payable	226,054	179,332
Accounts payable - capital	2,747,500	-
Accrued expenses	2,669,543	3,014,157
Accrued interest payable	130,768	138,547
Due to the State of Delaware - pension contributions	132,633	116,285
Deferred revenue	50,297	39,681
Total current liabilities	6,396,772	4,937,876

See notes to the financial statements

Diamond State Port Corporation
Statements of Net Position (Continued)
June 30, 2018 and 2017

	2018	2017
Long-term liabilities		
Notes payable, net of current portion	$ 23,601,939	$ 23,228,045
Net pension liability (Note 10)	4,778,432	5,975,570
Total long-term liabilities	28,380,371	29,203,615
Total liabilities	34,777,143	34,141,491
Deferred inflows of resources		
Pension plan change in assumptions (Note 10)	-	727,560
Pension plan experience differences (Note 10)	534,430	-
Total deferred inflows	534,430	727,560
Net position		
Net investment in capital assets	196,891,230	190,416,771
Restricted - capital improvement fund	15,500,251	16,152,425
Unrestricted	3,022,110	1,844,407
Total net position	$ 215,413,591	$ 208,413,603

See notes to the financial statements

Diamond State Port Corporation
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Cargo handling	$ 15,769,567	$ 14,726,882
Leasing, storage, and equipment rental	12,506,262	12,048,306
Dockage and wharfage	9,993,841	9,269,863
Other operating revenue	1,534,045	1,258,003
Total operating revenues	39,803,715	37,303,054
Operating expenses		
Salaries and related benefits	26,101,415	23,645,704
Pension expense (Note 10)	1,121,178	1,194,953
Pension contributions (Note 10)	(1,141,459)	(1,154,543)
	26,081,134	23,686,114
Materials, supplies, and contractual services	13,396,672	11,518,204
Depreciation	7,511,344	6,564,830
Total operating expenses	46,989,150	41,769,148
Operating loss	(7,185,435)	(4,466,094)
Nonoperating income (expenses)		
Interest expense	(961,059)	(862,084)
Interest income	178,607	88,988
Loss on retirements of assets	(32,125)	(22,056)
Total nonoperating expenses	(814,577)	(795,152)
Net loss before capital contributions	(8,000,012)	(5,261,246)

See notes to the financial statements

Diamond State Port Corporation

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

Years Ended June 30, 2018 and 2017

	2018	2017
Capital contributions		
State appropriations and grants	$ 15,000,000	$ 19,643,560
Total capital contributions	15,000,000	19,643,560
Changes in net position	6,999,988	14,382,314
Net position, beginning of year	208,413,603	194,031,289
Net position, end of year	$ 215,413,591	$ 208,413,603

See notes to the financial statements

Diamond State Port Corporation
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from customers and others	$ 39,140,985	$ 37,551,712
Cash payments to employees for services	(26,431,085)	(23,577,936)
Cash payments to suppliers for goods and services	(13,392,462)	(12,209,481)
Net cash provided by (used in) operating activities	(682,562)	1,764,295
Cash flows from noncapital financing activity		
Acquisition and construction of capital assets	(135,842)	(11,495,156)
Net cash used in noncapital financing activity	(135,842)	(11,495,156)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(13,274,359)	(17,244,824)
Interest paid on loans	(844,224)	(878,662)
Principal paid on loans	(732,344)	(1,879,418)
Capital contributions	15,000,000	19,643,560
Net cash provided by (used in) capital and related financing activities	149,073	(359,344)
Cash flows from investing activities		
Sales of investments	74,594,743	39,473,545
Purchases of investments	(77,590,534)	(33,234,019)
Interest on cash and investments	178,607	88,988
Net cash provided by (used in) investing activities	(2,817,184)	6,328,514
Changes in cash and cash equivalents	(3,486,515)	(3,761,691)
Cash and cash equivalents, beginning of year	9,475,464	13,237,155
Cash and cash equivalents, end of year	$ 5,988,949	$ 9,475,464

See notes to the financial statements

Diamond State Port Corporation
Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$ (7,185,435)	$ (4,466,094)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	7,511,344	6,564,830
Pension adjustment	(20,282)	40,410
Net change in the allowance for doubtful accounts	(194,899)	194,784
(Increase) decrease in assets		
Accounts receivable	(673,346)	48,859
Inventory	35,337	(135,712)
Prepaid expenses and other assets	115,647	(555,565)
Increase (decrease) in liabilities		
Accounts payable	46,722	121,480
Accrued expenses	(344,614)	(61,045)
Due to State of Delaware - pension contribution	16,348	7,333
Deferred revenue	10,616	5,015
Net cash provided by operating activities	$ (682,562)	$ 1,764,295
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 844,224	$ 878,662
Supplemental schedules of noncash capital and related financing activities		
Outflows from deferred outflows of resources	$ 28,276	$ 27,354
Inflows from deferred inflows of resources	$ -	$ (46,021)
Cost of disposed fixed assets, resulting in a loss of $32,125 during 2018 and $22,056 during 2017	$ 200,349	$ 119,092
Proceeds from notes payable	$ -	$ 5,000,000
Fixed asset acquired with accrued expense	$ 2,747,500	$ -

See notes to the financial statements

Note 1 - Organization

The Diamond State Port Corporation (the Corporation) was created on August 3, 1995 in accordance with the provisions of Section 24(1) of Senate Bill 260 enacted by the 138th General Assembly of the State of Delaware (the State). The Corporation is a public instrumentality of the State 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 income 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 $39,100 and $233,999 as of June 30, 2018 and 2017, 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.

Note 2 - Summary of Significant Accounting Policies - Continued

(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.

Note 2 - Summary of Significant Accounting Policies - Continued

(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. In Fiscal Years 2018 and 2017, contributions from the State totaled $15,000,000 and $19,643,560, 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. To date $2,919,250 has been drawn from the grant. No funds were drawn in Fiscal Years 2018 and 2017.

(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.

As of June 30, 2018, a deferred outflow of resources is reported for employer pension contributions made subsequent to the measurement date of the Corporation's net pension liability and before the end of the Corporation's current reporting period. These contributions will be recognized as a reduction to the net pension liability in the following Fiscal Year. As of June 30, 2018, a deferred outflow 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. As of June 30, 2018, a deferred inflow of resources is reported for the difference between expected and actual pension plan experience. The difference is amortized over a six or seven-year period and is recognized as a component of pension expense. As of June 30, 2018, a deferred outflow of resources is reported for changes in pension plan assumptions. The inflow is amortized over a six or seven-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.

Note 2 - Summary of Significant Accounting Policies - Continued

(l) Adoption of GASB Statements

In Fiscal Year 2018, the Corporation did not adopt any new accounting standards. In Fiscal Year 2017, the Corporation adopted one new applicable accounting standard, as follows:

GASB issued Statement No. 82, *Pension Issues – an amendment to GASB Statements No. 67, No. 68, and No. 73,* in March 2016. GASB No. 82 addresses certain issues raised with respect to GASB No. 67, *Financial Reporting for Pensions Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of GASB No. 82 had no impact on the financial statements of the Corporation.

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 investment of all money belonging to the State or on deposit from its political subdivisions, other than money deposited in any State Pension Fund or the State Deferred Compensation Program and to determine the terms, conditions, and other matters relating to those investments, including the designation of permissible investments (29 De.C. §2716(a)). 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 requires State funds to be allocated and held in the following categories of accounts:

- Collection and disbursement accounts
- Liquidity accounts
- Reserve accounts
- Endowment accounts
- Operating accounts

Note 3 - Cash and Investments - Continued

The Corporation's accounts are considered operating accounts. State agencies and other public authorities maintain various operating accounts with the intent of segregating such funds for accounting and reporting purposes. In addition, operating accounts may be created to meet particular purposes and/or to comply with State statutes, bond trust agreements, and/or federal guidelines. The investment objectives of such funds are to ensure safety and maximize return while providing for the liquidity requirements specifically identifiable to the use of such funds.

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 following investments are permissible for operating accounts, subject to the percentage limitations of the account:

- U.S. Treasury obligations
- U.S. government agency obligations
- Certificates of deposit and time deposits
- Corporate debt instruments
- Repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities

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

At June 30, 2018 and 2017, all 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.

Note 3 - Cash and Investments - Continued

The following table presents a listing of directly held investments and related maturities at June 30, 2018:

		Investment Maturities (in years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**11 - 15**
Investment type:					
U.S. Treasury Bills	$ 3,987,086	$ 3,987,086	$ -	$ -	$ -
U.S. Government Agency Bonds and Notes	5,262,804	5,262,804	-	-	-
Commercial Paper	5,178,112	5,178,112	-	-	-
	$ 14,428,002	$ 14,428,002	$ -	$ -	$ -

The following table presents a listing of directly held investments and related maturities at June 30, 2017:

		Investment Maturities (in years)			
	Fair Value	**Less Than 1**	**1 - 5**	**6 - 10**	**11 - 15**
Investment type:					
U.S. Treasury Bills	$ 1,991,190	$ 1,991,190	$ -	$ -	$ -
U.S. Government Agency Bonds and Notes	6,449,671	6,449,671	-	-	-
Commercial Paper	2,991,347	2,991,347	-	-	-
	$ 11,432,208	$ 11,432,208	$ -	$ -	$ -

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, 2018, and 2017, 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, 2018:

- U.S. Treasury securities of $3,987,086 are valued using quoted market prices (Level 1 inputs)
- U.S. government agency bonds and notes of $5,262,804 are valued using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)
- Commercial paper of $5,178,112 is valued using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)

Note 3 - Cash and Investments - Continued

The Corporation has the following recurring fair value measurements as of June 30, 2017:

- U.S. Treasury securities of $1,991,190 are valued using quoted market prices (Level 1 inputs)
- U.S. government agency bonds and notes of $6,449,671 are valued using a discounted cash flow model, with key inputs of coupon, yield, and expected maturity date (Level 2 inputs)
- Commercial paper of $2,991,347 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)

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:

- Certificates of deposit and time deposits be with a banking institution with assets of not less than $100 billion, that is rated not lower than A1/P-1/F1 short term by at least two rating agencies; Money market funds be invested solely in government securities, which are rated in the highest rating category by at least one rating agency;
- Asset-backed securities have the highest credit rating from at least two rating agencies; and
- 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-	A3	A-*
Corporate bonds and debentures	A-	A3	A-

* Excluding asset-backed commercial paper that is rated A1 or better

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.

Note 3 - Cash and Investments - Continued

A. U.S. Treasury obligations - no restrictions.

B. U.S. government agency obligations - 50% in total; 20% in any one issuer.

C. Certificates of deposit and time deposits - 50% in total (domestic and non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.

D. Corporate debt instruments - 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.

E. Repurchase agreements - 50% in total; provided that any securities purchased subject to repurchase agreements shall be subject to the respective Percentage Limit for such security type as set forth in the Policy and valued for such purposes at the lesser of fair market value and 102% of the maturity value of the securities pursuant to the repurchase agreement and marked-to-the-market daily as requested by the investment manager.

F. Money market funds - no restrictions.

G. Canadian treasuries - 25% in total.

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

I. Mortgage-backed and asset-backed securities - 10% in total.

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:

	2018		2017	
	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
United States Treasury	$ 3,987,086	26%	$1,991,190	12%
Federal Home Loan Bank	2,477,152	16	1,963,562	12
Federal Farm Credit Bank	1,590,148	10	997,125	6
Federal National Mortgage Association	1,195,504	8	997,911	6
Federal Home Loan Mortgage Corporation	-	0	2,491,073	16

Note 3 - Cash and Investments - Continued

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 $5,367,614 and $4,995,304 as of June 30, 2018 and 2017, 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:

	2018	2017
Capital improvements	$15,500,251	$16,152,425

Assets restricted for capital improvements consisted of contributions from the State. As of June 30, 2018 and 2017, these assets were invested in money market funds, commercial paper, U.S. Treasury bills, and U.S. government agency bonds and notes.

Note 5 - Capital Assets

Property and equipment activity during Fiscal Year 2018 consisted of the following:

	June 30, 2017	Additions	Retirements	Transfers	June 30, 2018
Capital Assets - Nondepreciable					
Land	$ 36,451,195	$ -	$ -	$ 32,812	$ 36,484,007
Construction in progress	27,394,145	16,157,701	-	(35,694,450)	7,857,396
Total Capital Assets - Nondepreciable	$ 63,845,340	$ 16,157,701	$ -	$ (35,661,638)	$ 44,341,403
Capital Assets - Depreciable					
Land improvements	$ 19,640,860	$ -	$ -	$ 2,188,273	$ 21,829,133
Buildings and warehouses	95,713,843	-	-	2,509,108	98,222,951
Docks, wharves, and rail	73,141,351	-	-	1,268,767	74,410,118
Equipment and cranes	39,939,163	-	(190,559)	29,508,892	69,257,496
Streets and water utilities	6,010,516	-	-	12,020	6,022,536
Vehicles and other	12,744,122	-	(9,790)	174,578	12,908,910
Total Capital Assets - Depreciable	247,189,855	-	(200,349)	35,661,638	282,651,144
Less: Accumulated Depreciation					
Land improvements	10,074,149	579,188	-	-	10,653,337
Buildings and warehouses	35,247,043	2,559,823	-	-	37,806,866
Docks, wharves, and rail	20,005,826	1,505,594	-	-	21,511,420
Equipment and cranes	17,508,296	2,067,016	(158,434)	-	19,416,878
Streets and water utilities	4,194,324	269,272	-	-	4,463,596
Vehicles and other	9,063,925	530,451	(9,790)	-	9,584,586
Total Accumulated Depreciation	96,093,563	7,511,344	(168,224)	-	103,436,683
Total Capital Assets - Depreciable, Net	$ 151,096,292	$ (7,511,344)	$ (32,125)	$ 35,661,638	$ 179,214,461

Note 5 - Capital Assets - Continued

Property and equipment activity during Fiscal Year 2017 consisted of the following:

	June 30, 2016	Additions	Retirements	Transfers	June 30, 2017
Capital Assets - Nondepreciable					
Land	$ 25,504,410	$ 10,946,785	$ -	$ -	$ 36,451,195
Construction in progress	25,857,668	22,793,195	-	(21,256,718)	27,394,145
Total Capital Assets - Nondepreciable	$ 51,362,078	$ 33,739,980	$ -	$ (21,256,718)	$ 63,845,340
Capital Assets - Depreciable					
Land improvements	$ 12,517,361	$ -	$ -	$ 7,123,499	$ 19,640,860
Buildings and warehouses	92,665,323	-	-	3,048,520	95,713,843
Docks, wharves, and rail	63,888,522	-	-	9,252,829	73,141,351
Equipment and cranes	38,459,879	-	(60,292)	1,539,576	39,939,163
Streets and water utilities	5,978,037	-	-	32,479	6,010,516
Vehicles and other	12,543,107	-	(58,800)	259,815	12,744,122
Total Capital Assets - Depreciable	226,052,229	-	(119,092)	21,256,718	247,189,855
Less: Accumulated Depreciation					
Land improvements	9,608,267	465,882	-	-	10,074,149
Buildings and warehouses	32,975,144	2,271,899	-	-	35,247,043
Docks, wharves, and rail	18,580,557	1,425,269	-	-	20,005,826
Equipment and cranes	15,950,352	1,610,936	(52,992)	-	17,508,296
Streets and water utilities	3,919,356	274,968	-	-	4,194,324
Vehicles and other	8,592,093	515,876	(44,044)	-	9,063,925
Total Accumulated Depreciation	89,625,769	6,564,830	(97,036)	-	96,093,563
Total Capital Assets - Depreciable, Net	$ 136,426,460	$ (6,564,830)	$ (22,056)	$ 21,256,718	$ 151,096,292

Depreciation expense was $7,511,344 and $6,564,830 for the Fiscal Years Ended June 30, 2018 and 2017, 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 $5,024,863 and $4,886,782 for the Fiscal Years Ended June 30, 2018 and 2017, 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, 2018:

2019	$ 4,656,082
2020	4,667,978
2021	4,687,260
2022	4,716,766
2023	4,749,642
Thereafter	28,330,467
	$ 51,808,195

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, 2018 and 2017. 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:

2018	Outstanding June 30, 2017	Issued and Other Increases	Payments and Other Reductions	Outstanding June 30, 2018
Transportation Trust Fund Note	$ 14,808,867	$ 96,341	$ (321,476)	$ 14,583,732
City of Wilmington - Port Debt Service Notes	2,691,998	-	(225,037)	2,466,961
Delaware River and Bay Authority	2,023,996	-	(157,555)	1,866,441
TD Bank Term Loan	5,000,000	-	-	5,000,000
Total Notes Payable	24,524,861	$ 96,341	$ (704,068)	23,917,134
Plus: Net Deferred Outflows and Inflows of Resources	153,058			124,782
Less: Current Maturities of Notes Notes Payable	(1,449,874)			(439,977)
Long-Term Notes Payable (Net of Current Maturities)	$ 23,228,045			$ 23,601,939

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

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

2017	Outstanding June 30, 2016	Issued and Other Increases	Payments and Other Reductions	Outstanding June 30, 2017
Transportation Trust Fund Note	$ 15,807,794	$ -	$ (998,927)	$ 14,808,867
City of Wilmington - Port Debt Service Notes	3,393,673	-	(701,675)	2,691,998
Delaware River and Bay Authority	2,221,479	-	(197,483)	2,023,996
TD Bank Term Loan	-	5,000,000	-	5,000,000
Total Notes Payable	21,422,946	$ 5,000,000	$ (1,898,085)	24,524,861
Plus: Net Deferred Outflows and Inflows of Resources	134,391			153,058
Less: Current Maturities of Notes Payable	(1,879,418)			(1,449,874)
Long-Term Notes Payable (Net of Current Maturities)	$ 19,677,919			$ 23,228,045

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

2018	Accrued Interest June 30, 2017	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2018
Transportation Trust Fund Note	$ 49,240	$ 587,986	$ (588,735)	$ 48,491
City of Wilmington Port Debt Service Notes	71,126	157,864	(164,196)	64,794
Delaware River and Bay Authority	8,973	103,174	(103,872)	8,275
TD Bank Term Loan	9,208	112,035	(112,035)	9,208
Total Accrued Interest	$ 138,547	$ 961,059	$ (968,838)	$ 130,768

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

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

2017	Accrued Interest June 30, 2016	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2017
Transportation Trust Fund Note	$ 52,561	$ 625,492	$ (628,813)	$ 49,240
City of Wilmington Port Debt Service Notes	78,343	131,168	(138,385)	71,126
Delaware River and Bay Authority	5,554	67,363	(63,944)	8,973
TD Bank Term Loan	-	38,061	(28,853)	9,208
Total Accrued Interest	$ 136,458	$ 862,084	$ (859,995)	$ 138,547

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. In May 2018, the loan was restructured to allow for the deferral of debt service principal and interest payments due May 31, 2018, March 31, 2019, and May 31, 2019, and to restructure the principal balance effective July 1, 2018. The interest rate was 3.99% during 2018 and 2017. The restructured loan matures in May 2031. The restructuring of the Transportation Trust Fund Note described above will add $681,457 of capitalized interest to the principal balance ($144,832 from Fiscal Year 2018 and $536,625 from Fiscal Year 2019) payable through May 31, 2031.

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

The future capitalized interest and maturities of principal and interest payments on the Transportation Trust Fund Note are as follows as of June 30, 2018:

Fiscal Year	Principal	Interest	Total
2019	$ (585,116)	$ -	$ (585,116)
2020	1,008,819	603,231	1,612,050
2021	1,049,294	562,756	1,612,050
2022	1,091,392	520,657	1,612,049
2023	1,135,180	476,869	1,612,049
2024 - 2028	6,396,735	1,663,513	8,060,248
2029 - 2031	4,487,428	348,721	4,836,149
	$ 14,583,732	$ 4,175,747	$ 18,759,479

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 17-1/2 years, resulting in an economic gain. The deferred outflow of resources on the refunding is accreted over the 17-1/2 year life of the debt. During the Fiscal Years Ended June 30, 2018 and 2017, $28,276 and $27,354, respectively, was charged to interest expense, which is included in the Statements of Revenues, Expenses, and Changes in Net Position.

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

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 3-1/2 year life of the Port-related debt. During the Fiscal Years Ended June 30, 2018 and 2017, $0 and $46,021, 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
2019	$ 273,832	$ 122,742	$ 396,574
2020	465,087	104,269	569,356
2021	798,170	72,687	870,857
2022	514,331	39,873	554,204
2023	540,323	13,507	553,830
Deferred outflows and inflows of resources - net	(124,782)	-	(124,782)
Totals	$ 2,466,961	$ 353,078	$ 2,820,039

The loan was scheduled to mature in July 2022. On July 30, 2018, the Corporation's Board of Directors resolved to pre-pay the balance of the Port Debt Service Note outstanding.

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.

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

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

Fiscal Year	Principal	Interest	Total
2019	$ 166,145	$ 95,282	$ 261,427
2020	175,202	86,225	261,427
2021	184,754	76,673	261,427
2022	194,826	66,601	261,427
2023	205,447	55,980	261,427
2024 - 2027	940,067	105,643	1,045,710
Totals	$ 1,866,441	$ 486,404	$ 2,352,845

The loan was scheduled to mature in June 2027. On July 30, 2018, the Corporation's Board of Directors resolved to pre-pay the balance of the DRBA obligation outstanding.

TD Bank Term Loan - On February 27, 2017, the Corporation entered into a term loan with TD Bank. The Corporation borrowed $5,000,000 and the funds were used to acquire the property known as Chemours Edgemoor Tract, located in Wilmington, Delaware.

The unpaid principal balance under the term loan bears interest at a per annum rate equal to 2.21%. Interest is payable monthly, in arrears, on the first day of each month, beginning April 1, 2017, and on the term loan maturity date. Principal is due in full on the term loan maturity date on February 27, 2020.

The future maturities of principal and interest payments on the TD Bank Term Loan are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ -	$ 112,035	$ 112,035
2020	5,000,000	83,182	5,083,182
Total	$ 5,000,000	$ 195,217	$ 5,195,217

At June 30, 2018, the Corporation was in compliance with the financial covenant that requires maintenance of a minimum current ratio of 1.20:1, tested annually.

Note 9 - Capital Contributions

Since its inception and for Fiscal Years 2018 and 2017, the Corporation has received capital contributions from the State and federal grants as follows:

	Inception to Date	FY 2018	FY 2017
State of Delaware	$ 260,065,000	$ 15,000,000	$ 19,643,560
Federal	8,590,462	-	-
Total	$ 268,655,462	$ 15,000,000	$ 19,643,560

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.

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

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

	2017	2016
Active members	272	259
Inactive members or beneficiaries currently receiving benefits	92	81
Terminated, vested members	12	14
	376	354

Net Pension Liability - The Corporation's net pension liability for the Fiscal Years Ended June 30, 2018 and 2017 was determined by actuarial valuations as of June 30, 2017 and 2016. 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 as of June 30:

	2017	**2016**
Inflation	2.50%	2.50%
Salary increases	1.50% merit increase	2.50% plus merit component based on service, including inflation
Investment rate of return	7.00%, including inflation	7.20%, including inflation

The actuarial assumptions used in the June 30, 2017 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 2016. Key assumption changes include a reduction in the investment rate of return from 7.20% to 7.00%. Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on the MP-2015 mortality improvement scale on a fully generational basis.

The actuarial assumptions used in the June 30, 2016 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 2016. Key assumption changes include a reduction in the inflation assumption from 3.00% to 2.50% and a change to use updated mortality tables. Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on the MP-2015 mortality improvement scale on a fully generational basis.

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.

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

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 7.00% and 7.20%, as of June 30, 2018 and 2017. 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, 2018 were as follows:

	Increase (Decrease)		
	Total Pension Liability [a]	**Plan Fiduciary Net Position [b]**	**Net Pension Liability [a] – [b]**
Balance, June 30, 2017	$ 32,612,468	$ 26,636,898	$ 5,975,570
Changes for the year:			
Service cost	942,605	-	942,605
Interest	2,314,182	-	2,314,182
Difference between expected and actual experience	(975,351)	-	(975,351)
Change in assumptions	815,025	-	815,025
Contributions – employees	-	239,853	(239,853)
Contributions – employer	-	1,134,262	(1,134,262)
Net investment income	-	2,949,265	(2,949,265)
Benefit payments, including refunds of employee contributions	(892,104)	(892,104)	-
Administrative expenses	-	(29,781)	29,781
Net changes	2,204,357	3,401,495	(1,197,138)
Balance, June 30, 2018	$ 34,816,825	$ 30,038,393	$ 4,778,432

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

Changes in the Corporation's net pension liability for the Fiscal Year Ended June 30, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability [a]	**Plan Fiduciary Net Position [b]**	**Net Pension Liability [a] – [b]**
Balance, June 30, 2016	$ 31,790,482	$ 26,439,163	$ 5,351,319
Changes for the year:			
Service cost	898,545	-	898,545
Interest	2,218,491	-	2,218,491
Difference between expected and actual experience	(599,480)	-	(599,480)
Change in assumptions	(873,072)	-	(873,072)
Contributions – employees	-	245,836	(245,836)
Contributions – employer	-	1,200,251	(1,200,251)
Net investment income	-	(393,808)	393,808
Benefit payments, including refunds of employee contributions	(822,498)	(822,498)	-
Administrative expenses	-	(32,046)	32,046
Net changes	821,986	197,735	624,251
Balance, June 30, 2017	$ 32,612,468	$ 26,636,898	$ 5,975,570

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 7.00% and 7.20%, as of June 30, 2018 and 2017, respectively, 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, 2018:

	Discount rate	Net pension liability
1% decrease	6.00%	$ 9,297,511
Current discount rate	7.00%	$ 4,778,433
1% increase	8.00%	$ 963,371

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

For the Fiscal Year Ended June 30, 2017:

	Discount rate		Net pension liability
1% decrease	6.20%	$	10,188,803
Current discount rate	7.20%	$	5,975,570
1% increase	8.20%	$	2,419,237

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 was six years for measurement periods through June 30, 2016 and seven years for the measurement period ended June 30, 2017. 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 $534,430 (inflow) and $435,418 (outflow) for the Fiscal Years Ended June 30, 2018 and 2017, 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 was six years for measurement periods through June 30, 2016 and seven years for the measurement period ended June 30, 2017. 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 $116,545 (outflow) and $727,560 (inflow) for the Fiscal Years Ended June 30, 2018 and 2017, respectively.

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 7.0% and 7.2%, as of June 30, 2017 and through June 30, 2016, respectively, are 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 $521,235 (outflow) and $1,559,264 (outflow) for the Fiscal Years Ended June 30, 2018 and 2017, respectively.

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

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources - For Fiscal Years 2018 and 2017, the components of pension expense were as follows:

	2018	2017
Service cost	$ 942,605	$ 898,545
Interest	2,314,182	2,218,491
Contributions - employees	(239,853)	(245,836)
Administrative expense	29,781	32,046
Projected earnings on Plan investments	(1,913,572)	(1,924,545)
Amortization of pension plan experience	(5,503)	133,833
Amortization of investment return differences	22,618	227,931
Amortization of change in assumptions	(29,080)	(145,512)
Pension expense	$ 1,121,178	$ 1,194,953

For the Fiscal Year Ended June 30, 2018, 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	$ 1,141,459	$ -
Pension plan investment return differences	521,235	-
Pension plan experience differences	-	534,430
Pension plan change in assumptions	116,545	-
Totals	$ 1,779,239	$ 534,430

For the Fiscal Year Ended June 30, 2017, 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	$ 1,154,543	$ -
Pension plan investment return differences	1,559,264	-
Pension plan experience differences	435,418	-
Pension plan change in assumptions	-	727,560
Totals	$ 3,149,225	$ 727,560

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

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:	
2019	$ (11,967)
2020	406,531
2021	226,005
2022	(471,414)
2023	(22,904)
Thereafter	(22,901)

Annual Pension Cost - The Corporation contributed 100% of its annual required contribution during the Fiscal Years Ended June 30, 2018 and 2017. The annual pension contribution cost was equal to the annual required contribution of $1,134,262 and $1,202,482 for the Fiscal Years Ended June 30, 2018 and 2017, respectively.

The annual required contribution for the year ended June 30, 2018 was determined as part of the June 30, 2017 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 7.00% investment rate of return and (b) projected salary increases of 1.50% merit increase, plus an inflation component of 2.50%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. 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, 2018 was 15 years.

The annual required contribution for the year ended June 30, 2017 was determined as part of the June 30, 2016 actuarial 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 2.50% plus merit component based on service, which included an inflation component of 2.50%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. 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, 2017 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 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, 2018 and 2017, the Corporation reported payables of $132,633 and $116,285, respectively, for the outstanding amount of contributions due to the Plan.

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

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 $639,949 and $483,403 for the Fiscal Years Ended June 30, 2018 and 2017, 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 $1.45 and $1.52 per $100 of payroll, which was $286,576 and $265,223 for the Fiscal Years Ended June 30, 2018 and 2017, 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

Any customer that comprises 10% of the Corporation's total revenue during a fiscal year must be disclosed as a major customer. Three major customers accounted for approximately 22.49%, 19.48% and 10.88% of operating revenues (52.85%) for the Fiscal Year Ended June 30, 2018. Two major customers of the Corporation accounted for approximately 22.13% and 19.56% of operating revenues (41.69% total) for the Fiscal Year Ended June 30, 2017.

Note 15 - Collective Bargaining

The Corporation employs 276 full-time and part-time benefits eligible employees. There are 78 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 January 2018 for the period October 1, 2016 through September 30, 2018. There are 133 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 14 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. In June 2018, the collective bargaining agreement with Local 326 was amended to extend the contract through September 30, 2018. There are 51 administrative employees (20.00%) 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, 2018 and 2017, the Corporation had construction in progress of $7,857,396 and $27,394,145, 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, 2018 and 2017, the Corporation had $15,500,251 and $16,152,425, 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.

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 September 21, 2018, which is the date the financial statements were available to be issued.

The Corporation has signed public/private partnership (P3) agreement with GT USA Wilmington, LLC (GT) which allows GT the right to commercially operate the Port of Wilmington with the objective of increased investment, job growth and promoting and enhancing commerce, shipping, navigation and competitiveness. GT shall materially invest in redeveloping the existing port facilities and establishing new port facilities at Edgemoor and pay the Corporation a concession fee. The agreement has a term of fifty years, which is anticipated to commence on a targeted closing date of October 1, 2018.

Note 17 - Subsequent Events - Continued

Related to the P3 agreement, the Corporation's Board of Directors resolved to pre-pay the balances of the Port Debt Service Note, scheduled to mature in July 2022, and the DRBA obligation, scheduled to mature in June 2027. See also Note 8.

The Corporation has agreed to settle with Kocks Krane for construction cost overruns on two Gantry Cranes procured from Kocks Krane. The agreed upon settlement of $1.5 million, included in accounts payable-capital as of June 30, 2018, releases and satisfies all claims from Kocks Krane against the Corporation for the construction costs overrun.

Required Supplementary Information

Diamond State Port Corporation

Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2018 and 2017

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

	2018	2017	2016
Total pension liability			
Service cost	$ 942,605	$ 898,545	$ 949,798
Interest	2,314,182	2,218,491	2,160,067
Difference between expected and actual experience	(975,351)	(599,480)	1,402,477
Change in assumptions	815,025	(873,072)	-
Benefit payments, including refunds of employee contributions	(892,104)	(822,498)	(728,383)
Net changes in total pension liability	2,204,357	821,986	3,783,959
Total pension liability - beginning	32,612,468	31,790,482	28,006,523
Total pension liability - ending (a)	$ 34,816,825	$ 32,612,468	$ 31,790,482
Plan fiduciary net position			
Contributions - employer	$ 1,134,262	$ 1,200,251	$ 1,052,285
Contributions - employees	239,853	245,836	233,430
Net investment income	2,949,265	(393,808)	915,990
Benefit payments, including refunds of employee contributions	(892,104)	(822,498)	(728,383)
Administrative expenses	(29,781)	(32,046)	(37,115)
Net changes in plan fiduciary net position	3,401,495	197,735	1,436,207
Plan fiduciary net position - beginning	26,636,898	26,439,163	25,002,956
Plan fiduciary net position - ending (b)	$ 30,038,393	$ 26,636,898	$ 26,439,163
Corporation's net pension liability - ending (a) - (b)	$ 4,778,432	$ 5,975,570	$ 5,351,319
Plan fiduciary net position as a percentage of the total pension liability	86.28%	81.68%	83.17%
Covered payroll	$ 12,028,232	$ 12,376,200	$ 11,790,800
Corporation's net pension liability as a percentage of covered payroll	39.73%	48.28%	45.39%

Diamond State Port Corporation
Schedule of Contributions
June 30, 2018 and 2017

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:

	2018	2017	2016
Actuarially determined contribution	$ 1,134,262	$ 1,200,251	$ 1,052,285
actuarially determined contribution	1,134,262	1,200,251	1,052,285
Contribution Excess / (Deficiency)	$ -	$ -	$ -
Covered payroll	$ 12,028,232	$ 12,376,200	$ 11,790,800
Contributions as a percentage of covered payroll	9.43%	9.70%	8.92%

Notes to Schedule

Valuation date:	June 30, 2017

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 normal
Amortization method	Percentage of pay - open
Remaining amortization period	15 years
Asset valuation method	Smoothed market, 20% annual market weight
Inflation	2.50%
Salary increases	2.50% merit increase
Investment rate of return	7.00%, 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 RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

Gunnip&company LLP
Certified Public Accountants and Consultants

Michael A. Trolio CPA
Donald J. Bromley CPA
E. Adam Gripton CPA
Katherine L. Silicato CPA
George W. Hager CPA
Robert T. Wright CPA
James R. Selsor, Jr. CPA

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, 2018, 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 21, 2018.

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.

Little Falls Centre Two 2751 Centerville Road Suite 300 Wilmington, DE 19808-1627
Phone: 302.225.5000 Fax: 302.225.5100 Web: www.gunnip.com

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.

Gunnip & Company LLP

September 21, 2018
Wilmington, Delaware