

State of Delaware
Diamond State Port Corporation
(A Component Unit of the State of Delaware)

Financial Statements

Year Ended June 30, 2019

State of Delaware
Diamond State Port Corporation

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Diamond State Port Corporation (the Corporation), as of and for the Fiscal Year Ended June 30, 2019, 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.

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, 2019, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 (j) to the financial statements, in Fiscal Year 2019, the Corporation early-adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified as respect to this matter.

Required Supplementary Information

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

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2019 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.



November 8, 2019
Wilmington, Delaware

Financial Statements

Diamond State Port Corporation
Statement of Net Position
June 30, 2019

	2019
Current assets	
Cash and cash equivalents	\$ 7,072,576
Accounts receivable, net	750,000
Grant receivable	2,287,044
Due from lessee	9,349,702
Interest receivable - lessee	3,000,000
Total current assets	22,459,322
Restricted assets	
Cash equivalents	105,380
Noncurrent assets	
Interest receivable - lessee	999,460
Lease Receivable - lessee	119,762,396
Note Receivable - lessee	54,837,330
Capital assets - nondepreciable	36,484,007
Capital assets - depreciable and being leased, net	140,345,700
Total capital assets, net	176,829,707
Total noncurrent assets	352,428,893
Total assets	374,993,595
Deferred outflows of resources	
Pension contributions	288,677
Pension plan change in assumptions	145,625
Total deferred outflows	\$ 434,302

See notes to financial statements.

Diamond State Port Corporation
Statement of Net Position (Continued)
June 30, 2019

	2019
Current liabilities	
Accounts payable	\$ 130,630
Accounts payable - capital	4,435,202
Accrued expenses - capital	4,219,089
Accrued interest payable	66,423
Line of credit	2,000,000
Current portion of notes payable	5,000,000
Total current liabilities	15,851,344
Long-term liabilities	
Notes payable, net of current portion	15,168,848
Advance lease payment	8,406,665
Net pension liability	4,035,498
Total long-term liabilities	27,611,011
Total liabilities	43,462,355
Deferred inflows of resources	
Lease receivable	117,965,960
Pension plan experience differences	308,031
Pension plan investment return differences	310,543
Total deferred inflows	118,584,534
Net position	
Net investment in capital assets	148,006,568
Restricted - capital improvement fund	105,380
Unrestricted	65,269,060
Total net position	\$ 213,381,008

See notes to financial statements.

Diamond State Port Corporation
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2019

	2019
Operating revenues	
Cargo handling	\$ 1,559,148
Leasing, storage, and equipment rental	2,538,012
Dockage and wharfage	2,225,014
Other operating revenue	574,759
Lease revenue from concession agreement	4,925,681
Interest income from concession agreement	6,249,460
	<u>18,072,074</u>
Operating expenses	
Salaries and related benefits	6,335,664
Pension expense	974,824
Pension contributions	(288,677)
	<u>7,021,811</u>
Materials, supplies, and contractual services	16,283,073
Depreciation	2,033,984
	<u>25,338,868</u>
Operating loss	<u>(7,266,794)</u>
Nonoperating income (expenses)	
Interest expense	(1,149,375)
Interest income	188,946
	<u>(960,429)</u>
Net loss before capital contributions	<u>(8,227,223)</u>
Capital contributions	
Federal grant	6,194,640
	<u>6,194,640</u>
Changes in net position	<u>(2,032,583)</u>
Net position, beginning of year	<u>215,413,591</u>
Net position, end of year	<u>\$ 213,381,008</u>

See notes to financial statements.

Diamond State Port Corporation
Statement of Cash Flows
Year Ended June 30, 2019

	<u>2019</u>
Cash flows from operating activities	
Cash received from customers and others	\$ 10,962,894
Cash payments to employees for services	(7,552,757)
Cash payments to suppliers for goods and services	<u>(24,142,974)</u>
Net cash used in operating activities	<u>(20,732,837)</u>
Cash flows from noncapital financing activity	
Line of credit advance	<u>2,000,000</u>
Net cash provided by noncapital financing activity	<u>2,000,000</u>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(5,176,694)
Federal capital contributions	3,907,596
Interest paid on loans	(619,733)
Principal paid on loans	(2,507,674)
Lease advance payment	<u>9,701,401</u>
Net cash provided by capital and related financing activities	<u>5,304,896</u>
Cash flows from investing activities	
Sales of investments	35,318,181
Purchases of investments	(20,890,179)
Interest on cash and investments	<u>188,946</u>
Net cash provided by investing activities	<u>14,616,948</u>
Changes in cash and cash equivalents	1,189,007
Cash and cash equivalents, beginning of year	<u>5,988,949</u>
Cash and cash equivalents, end of year	<u><u>\$ 7,177,956</u></u>

Diamond State Port Corporation
Statement of Cash Flows (Continued)
Year Ended June 30, 2019

	2019
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (7,266,794)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,033,984
Pension adjustment	686,147
Net change in the allowance for doubtful accounts	(39,100)
(Increase) decrease in assets	
Accounts receivable	2,317,534
Lease and note interest receivable	(3,999,460)
Inventory	(146,708)
Prepaid expenses and other assets	(8,605,805)
Increase (decrease) in liabilities	
Accounts payable	(2,153,390)
Accrued expenses	1,549,546
Due to State of Delaware - pension contribution	(132,633)
Deferred revenue	(50,297)
Recognition of lease revenue from excess volume	(3,129,425)
Recognition of lease revenue from deferred lease receivable	(1,796,436)
	Net cash used in operating activities
	\$ (20,732,837)
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 619,733
Supplemental schedules of noncash capital and related financing activities	
Outflows from deferred outflows of resources	\$ 1,809,342
Inflows from deferred inflows of resources	\$ 359,032
Recognition of lease receivable	\$ 119,762,396
Sale of capital assets and inventory related to lease	\$ 54,837,330
Capital asset acquired with accrued expense	\$ 3,745,669
Loan principal and interest paid from lease advance payment	\$ 1,834,599

See notes to financial statements.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

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.

Effective October 3, 2018, the Corporation and GT USA Wilmington, LLC (GT) entered into a Concession Agreement (Agreement) to transfer the right to commercially operate the Port of Wilmington to GT with the Corporation becoming a landlord with certain oversight and consent rights. The term of the Agreement is fifty years (see Note 3).

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 generally accepted accounting principles (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 (through October 2, 2018) 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 which was \$0 as of June 30, 2019.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 2 - Summary of Significant Accounting Policies - Continued

(d) Restricted Investments

Any restricted investments are stated at fair value.

(e) 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:

<u>Asset</u>	<u>Years</u>
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

With the adoption of the Concession Agreement on October 3, 2018, the Corporation sold all equipment and cranes and all vehicles and other assets. The remaining capital assets and land are leased to GT. Under the Agreement, the leased assets are to be returned to the Corporation in equal or better condition at the end of the Agreement. Therefore, no depreciation will be recorded on the remaining assets of the Corporation.

(f) Revenues

The significant sources of operating revenue beginning on October 3, 2018, with the implementation of the Concession Agreement are:

Lease Revenue - Represents rentals recognized under the terms of the Concession Agreement for the use of all land, buildings and infrastructure at the Port. See Note 3.

Interest Income - Represents interest recognized under the terms of the lease and note receivable balances from the Concession Agreement. See Note 3.

The significant sources of operating revenue prior to October 3, 2018 were:

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.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 2 - Summary of Significant Accounting Policies - Continued

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.

(g) 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 year 2014, the Corporation was awarded a \$10,000,000 TIGER grant by the U.S. Department of Transportation (USDOT) for the repair of Berths 5 and 6. To date \$6,826,843 has been drawn from the grant, of which \$3,907,596 was drawn in fiscal year 2019. As of June 30, 2019, there is receivable from USDOT of \$2,287,044.

(h) 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 9) in 2002, 2005, and 2013, which were being accreted over the remaining life of the Note at the time of each refunding as an adjustment to interest expense. During Fiscal Year 2019, the Corporation prepaid the remaining balance on the note and the remaining deferred charges were charged to interest expense.

As of June 30, 2019, 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, 2019, 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, 2019, 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, 2019, a deferred inflow 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.

As of June 30, 2019, a deferred inflow of resources is reported equal to the present value of future lease payments under the Concession Agreement dated October 3, 2018. The deferred inflow is recognized as revenue in a systemic manner over the term of the Concession Agreement.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 2 - Summary of Significant Accounting Policies - Continued

(i) 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.

(j) Adoption of GASB Statement

In Fiscal Year 2019, the Corporation early-adopted GASB Statement No. 87, *Leases* (Statement). This Statement requires recognition of certain lease assets and liabilities for leases that may have previously been classified as operating leases as well as the corresponding recognition as deferred inflows or deferred outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Note 3 - Concession Agreement and Corresponding Lease and Notes Receivable

Effective October 3, 2018, the Corporation and GT entered into a Concession Agreement to transfer to GT the right to commercially operate the Port of Wilmington with the Corporation becoming a landlord with certain oversight and consent rights. The term of the Concession Agreement is for a noncancelable term of fifty years. Although the Concession Agreement is referred to as a "concession," it does not meet the requirements of a concession arrangement under GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*. Based on the criteria under GASB Statement No. 60, it is required to be accounted for as lease. Accordingly, the Corporation is recognizing the lease in accordance with GASB Statement No. 87 - *Leases*, which the Corporation early-adopted in fiscal year 2019.

In return for the right to commercially operate the Port, the Concession Agreement requires GT to invest \$580 million to redevelop the existing port facilities and establish new port facilities at Edgemoor and to pay the Corporation a Concession Fee. In return for the Concession Fee, the Corporation sold to GT its cranes, tools, vehicles, cargo handling equipment, furniture, furnishings, computers, telephones, telephone numbers, office supplies, software and other intellectual property and all other equipment and parts used in operation at the Port to GT. Also, the Corporation will lease to GT all of the land located at the existing Port and Edgemoor that is owned by the Corporation, together with all improvements, including all buildings, structures, piers, wharves, and utility infrastructure owned by the Corporation and all of Corporation's easement rights.

The Concession Agreement requires GT to pay a minimum concession fee of \$3,000,000 per year for the first ten years of the term and up to \$12,017,560 per year during the remaining forty years. The minimum concession fee is based on volume of services provided by GT. The minimum concession fee is adjusted every third year based on the change in consumer price index. In accordance with GASB Statement No. 87, the initially recognized lease and note receivable balances exclude any concession fees due for services that exceed the minimums embodied in the Concession Agreement or the change in the consumer price index. On October 3, 2018, the Corporation received an advance payment of \$11,536,000 from GT, of which \$8,406,665 is still remaining to be repaid as of June 30, 2019.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 3 - Concession Agreement and Corresponding Lease and Notes Receivable - Continued

Upon the inception of the Concession Agreement, for the assets leased, the Corporation recognized a lease receivable and deferred inflow of resources of \$119,762,396 which is equal to the present value of the fixed payment stream. The present value was calculated using a discount rate of 4.2% in accordance with requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*. During the fiscal year 2019, the Corporation recognized lease revenue and interest income on the lease receivable from the Concession Agreement of \$4,925,681 and \$4,286,664, respectively. The Agreement requires GT to return these assets to the Corporation in a condition necessary for ongoing operations during the five years prior to the termination date.

Similarly, for the assets sold, the Corporation recognized a note receivable of \$54,837,330 which is equal to the present value using the same discount rate of 4.2%. During fiscal year 2019, the Corporation recognized interest income on the note receivable of \$1,962,796.

Future minimum concession fees under the terms of the agreement are as follows as of June 30:

	Lease Receivable			Note Receivable			Total
	Principal Receivable	Interest	Minimum Concession Fee	Principal Receivable	Interest	Minimum Concession Fee	Minimum Concession Fee
2020	\$ -	\$ 2,057,776	\$ 2,057,776	\$ -	\$ 942,224	\$ 942,224	\$ 3,000,000
2021	-	2,057,776	2,057,776	-	942,224	942,224	3,000,000
2022	-	2,057,776	2,057,776	-	942,224	942,224	3,000,000
2023	-	2,057,776	2,057,776	-	942,224	942,224	3,000,000
2024	-	2,057,776	2,057,776	-	942,224	942,224	3,000,000
2025 - 2029	-	13,381,569	13,381,569	-	6,127,211	6,127,211	19,508,780
2030 - 2034	-	41,215,751	41,215,751	-	18,872,049	18,872,049	60,087,800
2035 - 2039	-	41,215,751	41,215,751	-	18,872,049	18,872,049	60,087,800
2040 - 2044	1,703,250	39,512,501	41,215,751	779,892	18,092,157	18,872,049	60,087,800
2045 - 2049	14,634,360	26,581,391	41,215,751	6,700,845	12,171,204	18,872,049	60,087,800
2050 - 2054	18,552,052	22,663,699	41,215,751	8,494,695	10,377,354	18,872,049	60,087,800
2055 - 2059	23,518,529	17,697,222	41,215,751	10,768,767	8,103,282	18,872,049	60,087,800
2060 - 2064	29,814,557	11,401,194	41,215,751	13,651,620	5,220,429	18,872,049	60,087,800
2065 - 2069	31,539,648	3,493,743	35,033,391	14,441,511	1,599,730	16,041,241	51,074,632
	<u>\$ 119,762,396</u>	<u>\$ 227,451,701</u>	<u>\$ 347,214,097</u>	<u>\$ 54,837,330</u>	<u>\$ 104,146,585</u>	<u>\$ 158,983,915</u>	<u>\$ 506,198,012</u>

The Corporation incurred legal and consulting costs of \$12,027,412 in connection with the Agreement. In accordance with GASB Statement No. 87, those costs are recognized as expenses in fiscal year 2019 under Materials, supplies and contractual services in the Corporation's Statement of Revenues, Expenses and Changes in Net Position.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 4 - 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

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.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 4 - Cash and Investments - Continued

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
- Municipal obligations

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

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

All deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

As of June 30, 2019, the Corporation held no investments.

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.

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. The Corporation did not hold any investments at June 30, 2019.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 4 - Cash and Investments - Continued

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:

<u>Investment</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
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

As of June 30, 2019, the Corporation held no investments.

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.

- 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 nondomestic combined); 25% in all nondomestic banking institutions; 5% in any one issuer.
- D. Corporate debt instruments - 50% in total; 25% in all nondomestic corporations; 25% in any one industry; 5% in any one issuer.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 4 - Cash and Investments - Continued

- 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, which includes cash and cash equivalents, at fair value in excess of 5% of the total investment portfolio (includes restricted cash and cash equivalents) as of June 30:

	<u>2019</u>	
	<u>Fair Value</u>	<u>Percent of Portfolio</u>
Federal Government Obligations Fund (Money Market)	\$ 105,380	100%

Cash and Cash Equivalents

Cash and cash equivalents, as reported on the Statement 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 \$6,841,641 as of June 30, 2019.

Note 5 - Restricted Assets

Restricted assets consisted of \$105,380 of cash equivalents restricted for capital improvements as of June 30, 2019.

Diamond State Port Corporation
Notes to Financial Statements
Year Ended June 30, 2019

Note 6 - Capital Assets

Property and equipment activity during Fiscal Year 2019 consisted of the following:

	June 30, 2018	Additions	Sales and Retirements	Transfers	June 30, 2019
Capital assets - nondepreciable					
Land	\$ 36,484,007	\$ -	\$ -	\$ -	\$ 36,484,007
Construction in progress	7,857,396	8,507,735	-	(16,365,131)	-
Total capital assets - Nondepreciable	<u>\$ 44,341,403</u>	<u>\$ 8,507,735</u>	<u>\$ -</u>	<u>\$ (16,365,131)</u>	<u>\$ 36,484,007</u>
Capital assets - depreciable					
Land improvements	\$ 21,829,133	\$ 90,202	\$ -	\$ -	\$ 21,919,335
Buildings and warehouses	98,222,951	154,886	-	2,621,621	100,999,458
Docks, wharves, and rail	74,410,118	-	-	11,900,437	86,310,555
Equipment and cranes	69,257,496	9,332	(69,266,828)	-	-
Streets and water utilities	6,022,537	9,949	-	-	6,032,486
Vehicles and other	12,908,910	150,254	(11,969,982)	1,843,073	2,932,255
Total capital assets - depreciable	<u>282,651,145</u>	<u>414,623</u>	<u>(81,236,810)</u>	<u>16,365,131</u>	<u>218,194,089</u>
Less: accumulated depreciation					
Land improvements	10,653,337	153,391	-	-	10,806,728
Buildings and warehouses	37,806,866	682,038	-	-	38,488,904
Docks, wharves, and rail	21,511,421	379,086	-	-	21,890,507
Equipment and cranes	19,416,878	617,855	(20,034,733)	-	-
Streets and water utilities	4,463,596	66,169	-	-	4,529,765
Vehicles and other	9,584,586	135,445	(7,587,546)	-	2,132,485
Total accumulated depreciation	<u>103,436,684</u>	<u>2,033,984</u>	<u>(27,622,279)</u>	<u>-</u>	<u>77,848,389</u>
Total capital assets - depreciable, net	<u>\$ 179,214,461</u>	<u>\$ (1,619,361)</u>	<u>\$ (53,614,531)</u>	<u>\$ 16,365,131</u>	<u>\$ 140,345,700</u>

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 7 - Leasing Revenue

The Corporation leased certain Port terminal and storage space to tenants. Total rental income under those operating leases amounted to \$2,538,012 for fiscal year 2019.

GT accepted all operating leases in effect at the commencement of the Concession Agreement on October 3, 2018.

Note 8 - Revolving Line of Credit

The Corporation has a \$3,000,000 unsecured, revolving line of credit from M&T Bank at a rate of 4.2%, \$2,000,000 of which was outstanding as of June 30, 2019. 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 9 - Notes Payable and Deferred Outflows and Inflows of Resources

The following is a summary of debt transactions for the Fiscal Year Ended June 30, 2019:

	2019			
	Outstanding June 30, 2018	Issued and Other Increases	Payments and Other Reductions	Outstanding June 30, 2019
Transportation Trust Fund Note City of Wilmington - Port Debt	\$ 14,583,732	\$ 585,116	\$ -	\$ 15,168,848
Service Notes	2,466,961	-	(2,466,961)	-
Delaware River and Bay Authority Obligation	1,866,441	-	(1,866,441)	-
TD Bank Term Loan	5,000,000	-	-	5,000,000
Total Notes Payable	23,917,134	<u>\$ 585,116</u>	<u>\$ (4,333,402)</u>	20,168,848
Plus: Net Deferred Outflows and Inflows of Resources	124,782			-
Less: Current Maturities of Notes Payable	<u>(439,977)</u>			<u>(5,000,000)</u>
Long-Term Notes Payable (Net of Current Maturities)	<u>\$ 23,601,939</u>			<u>\$ 15,168,848</u>

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 9 - Notes Payable and Deferred Outflows and Inflows of Resources - Continued

Interest charges were as follows for the Fiscal Years Ended June 30, 2019:

	2019			
	Accrued Interest June 30, 2018	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2019
M&T Bank Line of Credit	\$ -	\$ 12,098	\$ (5,194)	\$ 6,904
Transportation Trust Fund Note	48,491	587,060	(585,114)	50,437
City of Wilmington Port Debt				
Service Notes	64,794	412,942	(477,736)	-
Delaware River and Bay Authority	8,275	25,240	(33,515)	-
TD Bank Term Loan	9,208	112,035	(112,161)	9,082
Total Accrued Interest	<u>\$ 130,768</u>	<u>\$ 1,149,375</u>	<u>\$ (1,213,720)</u>	<u>\$ 66,423</u>

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. In June 2019, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2020 and May 31, 2020, and to restructure the principal balance effective July 1, 2019. The interest rate was 3.99% during 2019. The restructured loan matures in May 2032. The restructurings of the Transportation Trust Fund Note described above will add \$1,290,048 of capitalized interest to the principal balance (\$144,832 from Fiscal Year 2018, \$587,061 from Fiscal Year 2019, and \$558,155 from Fiscal Year 2020) payable through May 31, 2032.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 9 - 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, 2019:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ (608,590)	\$ -	\$ (608,590)
2021	1,049,294	627,433	1,676,727
2022	1,091,392	585,334	1,676,726
2023	1,135,180	541,547	1,676,727
2024 - 2028	6,396,735	1,986,899	8,383,634
2029 - 2032	6,104,837	602,070	6,706,907
	<u>\$ 15,168,848</u>	<u>\$ 4,343,283</u>	<u>\$ 19,512,131</u>

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** - On October 3, 2018, all remaining principal and interest amounts scheduled to mature in July 2022 were prepaid.

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, 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, for a period of 20 years, totaling \$4,000,000 plus interest, which ranges from 1.50% to 5.32%.

On October 3, 2018, the remaining principal amounts scheduled to mature in June 2027 were prepaid.

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.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 9 - Notes Payable and Deferred Outflows and Inflows of Resources - Continued

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	<u>\$ 5,000,000</u>	<u>\$ 83,182</u>	<u>\$ 5,083,182</u>
Total	<u>\$ 5,000,000</u>	<u>\$ 83,182</u>	<u>\$ 5,083,182</u>

As of June 30, 2019, the Corporation was in compliance with the financial covenant that requires maintenance of a minimum current ratio of 1.20:1, tested annually.

Note 10 - Capital Contributions

Since its inception and for fiscal year 2019, the Corporation has received capital contributions from State and federal grants as follows:

	<u>Inception to Date</u>	<u>FY 2019</u>
State of Delaware	\$ 260,065,000	\$ -
Federal	<u>14,181,400</u>	<u>6,194,640</u>
Total	<u>\$ 274,246,400</u>	<u>\$ 6,194,640</u>

Note 11 - 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.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 11 - Pension Plan and Other Post-Retirement Employee Benefits - Continued

Freezing of Plan - Effective on the adoption of the Concession Agreement, October 3, 2018, the employees of the Corporation were offered positions by GT and the Plan was:

- Frozen as to further employee contributions and employees will be paid out pensions as provided for under the Plan;
- Employees would be credited for a partial year as the last year of service; and
- The existing Rule of 90 would be expanded and turned into a Rule of 85.

As of June 30, 2018, the following employees were covered by the Plan:

Active members	272
Inactive members or beneficiaries	
currently receiving benefits	92
Terminated, vested members	<u>12</u>
	<u><u>376</u></u>

Net Pension Liability - The Corporation's net pension liability for the Fiscal Year Ended June 30, 2019 was determined by actuarial valuation as of June 30, 2018. 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, 2018:

Inflation	2.50%
Salary increases	2.50% plus merit component based on service, including inflation
Investment rate of return	7.00%, including inflation

The actuarial assumptions used in the June 30, 2018 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 2017. Key assumption changes include an increase in projected salary increases from 1.50% to 2.50%. The amortization method was changed from a 15-year rolling level percentage of payroll methodology to a five-year closed level dollar amortization to better reflect the freezing of Plan benefits. 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.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 11 - 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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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% as of June 30, 2018. 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 fiscal year 2019 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net	Net Pension Liability
Balance, June 30, 2018	\$ 34,816,825	\$30,038,392	\$ 4,778,433
Changes for the year:			
Service cost	1,041,488	-	1,041,488
Interest	2,494,875	-	2,494,875
Difference between expected and actual experience	265,075	-	265,075
Change in assumptions	-	-	-
Contributions - employees	-	280,350	(280,350)
Contributions - employer	-	1,175,029	(1,175,029)
Net investment income	-	3,129,075	(3,129,075)
Benefit payments, including refunds of employee contributions	(981,216)	(981,216)	-
Administrative expenses	-	(40,081)	40,081
Net changes	<u>2,820,222</u>	<u>3,563,157</u>	<u>(742,935)</u>
Balance, June 30, 2019	<u>\$ 37,637,047</u>	<u>\$33,601,549</u>	<u>\$ 4,035,498</u>

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 11 - Pension Plan and Other Post-Retirement Employee Benefits - Continued

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% as of June 30, 2018, 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:

	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	6.00%	\$ 8,846,292
Current discount rate	7.00%	\$ 4,035,498
1% Increase	8.00%	\$ (31,025)

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 an average of six years for the measurement period through June 30, 2018. 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 \$308,031 (inflow) for fiscal year 2019.

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 an average of seven years for the measurement periods through June 30, 2018. 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 \$145,625 (outflow) for fiscal year 2019.

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%, as of June 30, 2018, 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 \$310,543 (inflow) for fiscal year 2019.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 11 - Pension Plan and Other Post-Retirement Employee Benefits - Continued

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources - For fiscal year 2019, the components of pension expense were as follows:

	2019
Service cost	\$ 1,041,488
Interest	2,494,875
Contributions - employees	(280,350)
Administrative expense	40,081
Projected earnings on Plan investments	(2,151,192)
Amortization of pension plan experience	38,676
Amortization of investment return differences	(179,674)
Amortization of change in assumptions	(29,080)
Pension expense	\$ 974,824

As of June 30, 2019, 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	\$ 288,677	\$ -
Pension plan investment return differences		310,543
Pension plan experience differences	-	308,031
Pension plan change in assumptions	145,625	-
Totals	\$ 434,302	\$ 618,574

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:	
2020	\$ 248,420
2021	67,894
2022	(629,525)
2023	(181,017)
2024	21,279
	\$ (472,949)

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 11 - Pension Plan and Other Post-Retirement Employee Benefits – Continued

Annual Pension Cost - The Corporation contributed 100% of its annual required contribution during fiscal year 2019. The annual pension contribution cost was equal to the annual required contribution of \$288,677 for fiscal year 2019.

The annual required contribution for the year ended June 30, 2019 was determined as part of the June 30, 2018 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 2.50% merit increase. 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 over a closed five-year period as a percentage of payroll. All payments are determined assuming the same dollar amount will be paid each of the five years of the amortization. This method was chosen to reflect the characteristics of a frozen plan.

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 – As of June 30, 2019, the Corporation reported no contributions due to the Plan.

Other Post-Retirement Employee Benefits - Retirees of the Corporation are permitted to enroll in the Corporation'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 12 - Lease Commitments

Through October 3, 2019, the Corporation leased various equipment and outside storage space on a short-term basis for its operations. Rental expense was \$57,696 for the fiscal year 2019.

Note 13 - 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 per \$100 of payroll, which was \$59,118 for fiscal year 2019.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 14 - Deferred Compensation Plan

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

Plan assets were held in trust for the exclusive benefit of participants and their beneficiaries. The Corporation had very little administrative involvement, performed no investing function, and had 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 were solely the property and rights of the participants and were not subject to claims of the Corporation's creditors. Accordingly, these plan assets were not reported as a part of the financial statements.

After the adoption of the Concession Agreement, on October 3, 2018, the Corporation no longer has employees and the Plan has been terminated. Employees were given the option to roll over their balances to GT's deferred compensation plan or to Individual Retirement Accounts or receive cash.

Note 15 - Major Customers

Any customer that comprises 10% of the Corporation's total revenue during a fiscal year must be disclosed as a major customer. After the adoption of the Concession Agreement, on October 3, 2018, the Corporation no longer works directly with customers. Revenues under the Concession Agreement (from GT) accounted for 61.84% of operating revenues in fiscal year 2019. There was also accounts receivable and interest receivable as of June 30, 2019 related to those revenues under the Concession Agreement.

Note 16 - Collective Bargaining

As of June 30, 2019, the Corporation has no employees. Prior to the adoption of the Concession Agreement on October 3, 2018, the Corporation employed 276 full-time and part-time benefits-eligible employees. There were 211 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 were 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 were 51 administrative employees (20.00%) not covered under collective bargaining agreements. Effective October 3, 2018, the Corporation's Collective Bargaining Agreements were replaced by Collective Bargaining Agreements between GT and the unions.

Diamond State Port Corporation

Notes to Financial Statements

Year Ended June 30, 2019

Note 17 - Commitments and Contingencies

Construction and Renovation Contracts - The Corporation has a contract for construction and renovation of Berths 5 and 6 located on its property at the Port, in accordance with the capital budget approved by its Board of Directors. As of June 30, 2019, the Corporation had construction of \$6,194,637 which is included in Docks, Wharves, and Rail. Funding for 40% of the capital projects has been received from the USDOT. The cost of the remaining 60% of the project and any change orders will be paid by GT. As of June 30, 2019, \$9,291,955 was receivable from GT for work completed under terms of the Concession Agreement. As of June 30, 2019, the Corporation had an outstanding construction commitment to its general contractor of \$3,704,156.

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

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

The Corporation has agreed to settle with a vendor for construction cost overruns on two Gantry Cranes procured from the vendor. The agreed-upon settlement of \$2.75 million, included in accrued expenses as of June 30, 2019, releases and satisfies all claims from the vendor against the Corporation for the construction costs overrun.

Note 18 - 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 November 8, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

Diamond State Port Corporation
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2019

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

Reporting Date	2019	2018	2017	2016
Measurement Date	2018	2017	2016	2015
Total pension liability				
Service cost	\$ 1,041,488	\$ 942,605	\$ 898,545	\$ 949,798
Interest	2,494,875	2,314,182	2,218,491	2,160,067
Difference between expected and actual experience	265,075	(975,351)	(599,480)	1,402,477
Change in assumptions	-	815,025	(873,072)	-
Benefit payments, including refunds of employee contributions	(981,216)	(892,104)	(822,498)	(728,383)
Net changes in total pension liability	2,820,222	2,204,357	821,986	3,783,959
Total pension liability - beginning	34,816,825	32,612,468	31,790,482	28,006,523
Total pension liability - ending (a)	<u>\$ 37,637,047</u>	<u>\$ 34,816,825</u>	<u>\$ 32,612,468</u>	<u>\$ 31,790,482</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,175,029	\$ 1,134,262	\$ 1,200,251	\$ 1,052,285
Contributions - employees	280,350	239,853	245,836	233,430
Net investment income	3,129,075	2,949,265	(393,808)	915,990
Benefit payments, including refunds of employee contributions	(981,216)	(892,104)	(822,498)	(728,383)
Administrative expenses	(40,082)	(29,781)	(32,046)	(37,115)
Net changes in plan fiduciary net position	3,563,156	3,401,495	197,735	1,436,207
Plan fiduciary net position - beginning	30,038,393	26,636,898	26,439,163	25,002,956
Plan fiduciary net position - ending (b)	<u>\$ 33,601,549</u>	<u>\$ 30,038,393</u>	<u>\$ 26,636,898</u>	<u>\$ 26,439,163</u>
Corporation's net pension liability - ending (a) - (b)	<u>\$ 4,035,498</u>	<u>\$ 4,778,432</u>	<u>\$ 5,975,570</u>	<u>\$ 5,351,319</u>
Plan fiduciary net position as a percentage of the total pension liability	89.28%	86.28%	81.68%	83.17%
Covered payroll	\$ 14,021,830	\$ 12,028,232	\$ 12,376,200	\$ 11,790,800
Corporation's net pension liability as a percentage of covered payroll	28.78%	39.73%	48.28%	45.39%

Diamond State Port Corporation
Schedule of Contributions
June 30, 2019

The following provides an analysis of the employer contributions made to the Plan in relation to the actuarially determined contributions for the fiscal years ended June 30:

Reporting Date	2019	2018	2017	2016
Measurement Date	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,175,029	\$ 1,134,262	\$ 1,200,251	\$ 1,052,285
Contributions in relation to the actuarially determined contribution	<u>1,175,029</u>	<u>1,134,262</u>	<u>1,200,251</u>	<u>1,052,285</u>
Contribution excess / (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 14,021,830	\$ 12,028,232	\$ 12,376,200	\$ 11,790,800
Contributions as a percentage of covered payroll	8.38%	9.43%	9.70%	8.92%

Notes to Schedule

Measurement date: ***June 30, 2018***

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:	Level dollar - closed
Remaining amortization period	5 years
Asset valuation method:	Smoothed market, 20% annual market weight
Inflation:	0.025
Salary increases:	N/A
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 RPEC-2015 mortality improvement scale on a fully generational projection.

Diamond State Port Corporation
Schedule of Contributions
June 30, 2019

Notes to Schedule

Measurement dates: *June 30, 2015 - 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.

Other Reporting Required by *Government Auditing Standards*

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, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 8, 2019.

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.

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.

November 8, 2019
Wilmington, Delaware

