State of Delaware
Diamond State Port Corporation

(A Component Unit of the State of Delaware)

Financial Statements

Years Ended June 30, 2014 and 2013

State of Delaware
Diamond State Port Corporation

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Santora CPA Group
Right, By Your Side

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Diamond State Port Corporation (the Corporation), as of and for the Fiscal Year Ended June 30, 2014, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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, 2014, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

As discussed in Note 2(l) to the financial statements, in Fiscal Year 2014, the Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Recorded as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the Corporation as of and for the Fiscal Year Ended June 30, 2013 were audited by other auditors whose report dated September 30, 2013 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 on pages 5 through 11 and the Schedule of Funding Progress on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 26, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Santora CPA Group

September 26, 2014
Newark, Delaware

As management of 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, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with additional information detailed in the basic 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, 2014 by $169,843 (*net position*), as compared to $162,925 at June 30, 2013 and $152,982 at June 30, 2012. Included in this amount at June 30, 2014 is net investment in capital assets of $139,671 and restricted net position of $25,695, after providing for relevant liabilities for payments to capital projects vendors and for debt service payments. Included in this amount at June 30, 2013 is net investment in capital assets of $140,231 and restricted net position of $19,890, after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.

- The Corporation's total net position increased by $6,918 during Fiscal Year 2014. The Corporation incurred a net loss of $4,427 before capital contributions of $11,345 from the State of Delaware (the State) appropriations and grants. Comparable net losses for Fiscal Years 2013 and 2012 were $2,145 and $2,039, respectively, before capital contributions.

Overview of the Financial Statements

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

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

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

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

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic 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 Government Accounting Standards Board (GASB). The Corporation is a component unit of the State. The Corporation's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Financial Analysis

As noted earlier, net position, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Corporation. The Corporation's assets exceeded liabilities by $169,843 at the close of Fiscal Year 2014, and by $162,925 at the close of Fiscal Year 2013.

Corporation's Net Position

(Expressed in Thousands)

		FY 2014	FY 2013	FY 2012
Current and restricted assets		$ 36,172	$ 30,500	$ 22,602
Capital assets – net of accumulated depreciation		164,968	166,938	163,315
	Total Assets	201,140	197,438	185,917
Deferred outflows of resources				
Refunding of debt		232	256	285
Current liabilities		7,811	9,130	6,229
Notes payable – net of current portion		23,451	25,262	26,991
	Total Liabilities	31,262	34,392	33,220
Deferred inflows of resources				
Refunding of debt		267	377	0
Net Position:				
Net investment in capital assets		139,671	140,231	134,970
Restricted – capital improvement fund		25,695	19,890	13,895
Unrestricted		4,477	2,804	4,117
	Total Net Position	$169,843	$162,925	$152,982

The decrease in capital assets from $166,938 in Fiscal Year 2013 to $164,968 in Fiscal Year 2014 is a result of new capital expenditures of $3,745 during the fiscal year as offset by growth in depreciation expense of $5,715. The increase in capital assets from $163,315 in Fiscal Year 2012 to $166,938 in Fiscal Year 2013 is mainly due to a federal security project, rehabilitation of Berth 5, equipment purchases, Berth 4 reconstruction, and various other upgrades net of relevant depreciation expense. 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 82% 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 2014, the value of these restricted assets includes $11,345 from the State, reduced by expenditure and outstanding liabilities incurred. For Fiscal Year 2013, the value of these restricted assets includes $2,089 in grants for security improvement projects received in Fiscal Year 2013 from the federal government and $10,000 from the State, as reduced by expenditure and outstanding liabilities incurred. These restricted assets are usable only for payments for capital projects. The balance of net position, $4,477 and $2,804 as of June 30, 2014 and 2013, respectively, represents *unrestricted net position* available for any Corporation-related business use. The increase of $1,673 from the unrestricted net position of $2,804 as of June 30, 2013 reflects a decrease in total current assets, as well as a decrease in current liabilities excluding the current portion of notes payable. The decrease of $1,313 from the unrestricted net position of $4,117 as of June 30, 2012 reflects an increase in current assets, as well as an increase in current liabilities, excluding the current portion of notes payable.

Corporation Activities. Corporation activities reduced the net position by $4,427 during Fiscal Year 2014, and by $2,145 during Fiscal Year 2013. Key elements of this change are as follows:

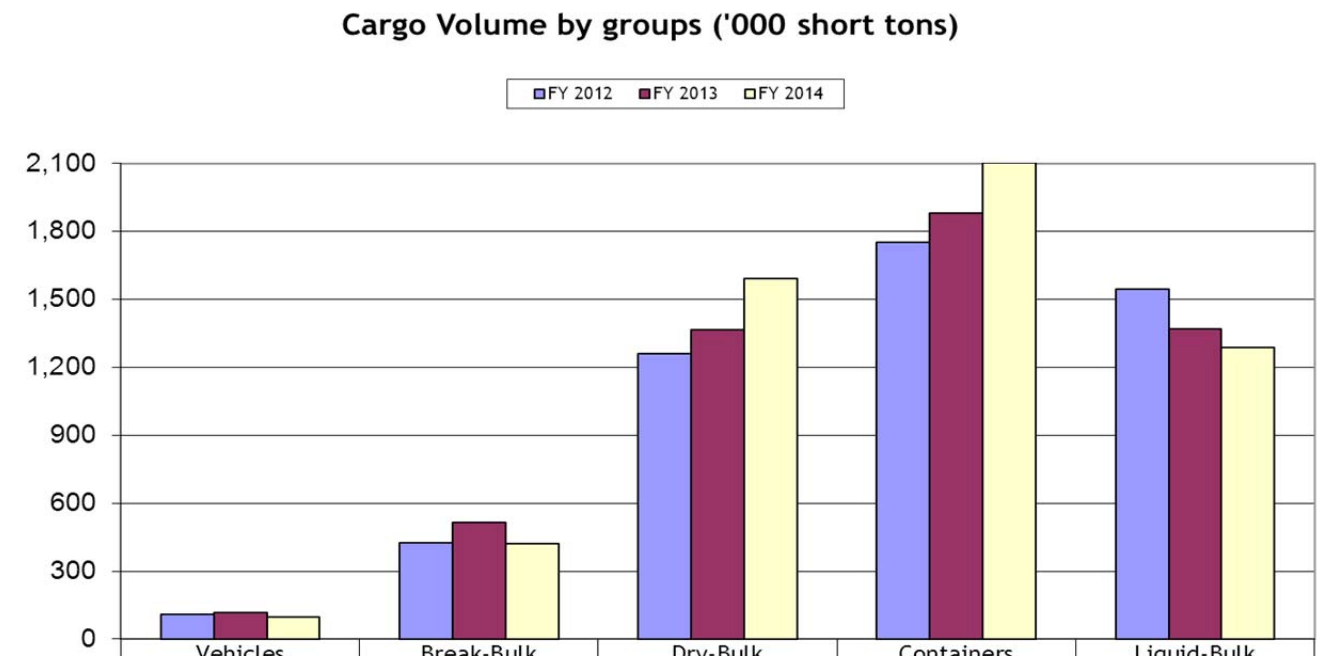
Corporation Activities

(Expressed in Thousands)

	FY 2014	FY 2013	FY 2012
Operating Revenues:			
Cargo handling	$ 13,219	$ 14,041	$12,293
Leasing, storage, and equipment rental	11,665	11,583	11,370
Dockage and wharfage	9,879	9,988	8,987
Other	1,166	1,138	1,315
Total Operating Revenues	35,929	36,750	33,965
Operating Expenses:			
Salaries and related benefits	21,326	20,105	18,755
Materials, supplies, and contractual services	12,403	12,102	10,536
Depreciation	5,715	5,556	5,537
Total Operating Expenses	39,444	37,763	34,828
Operating Loss	(3,515)	(1,013)	(863)
Interest (expense)	(934)	(1,141)	(1,182)
Interest income	22	9	6
Net loss before capital contributions	$ (4,427)	$ (2,145)	$ (2,039)

Cargo Tonnage:

A total of 5.5 million tons of cargo passed over the Corporation's facilities in Fiscal Year 2014, an increase of 4.9% over the total tons handled in Fiscal Year 2013. A total of 5.2 million tons of cargo passed over the Port's facilities in Fiscal Year 2013, an increase of 2.0% over the total tons handled in Fiscal Year 2012.



	Vehicles	Break-Bulk	Dry-Bulk	Containers	Liquid-Bulk
FY 2012	108	423	1,261	1,750	1,544
FY 2013	116	515	1,365	1,879	1,369
FY 2014	97	420	1,592	2,102	1,289

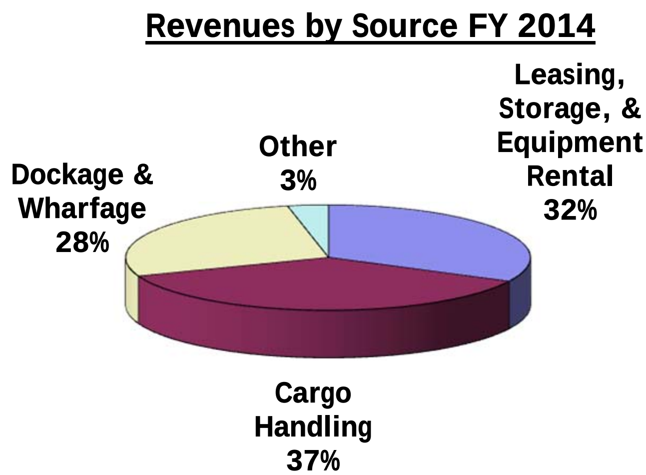
Vehicle volumes remain low due to the sluggish economic growth outside the US. Break-Bulk volume growth was reduced over Fiscal Year 2013 due to the closure of the local slab steel plant with the corresponding loss of imported steel business, as well as bad weather adversely affecting imported fruit and juice volumes. Dry-Bulk volume increased dramatically because of the demand for road salt due to the severe winter. Containerized tropical fruit volume grew due to continued improvements in vessel capacity and market demand. Reduction in liquid petroleum demand and juice volume had an unfavorable impact on Liquid-Bulk volume.

For Fiscal Year 2013, as compared to Fiscal Year 2012, Break-Bulk volume growth was due to significant increases in imported Chilean fruit and imported steel for the local steel plant. In addition, Dry-Bulk growth was attributable to continued growth in exports of coal and a local refinery's Petrocoke product. Containerized tropical fruit volume grew due to improvements in vessel capacity and market demand. Significant reduction in liquid petroleum volume had an adverse impact on Liquid-Bulk volume.

Operating Revenue:

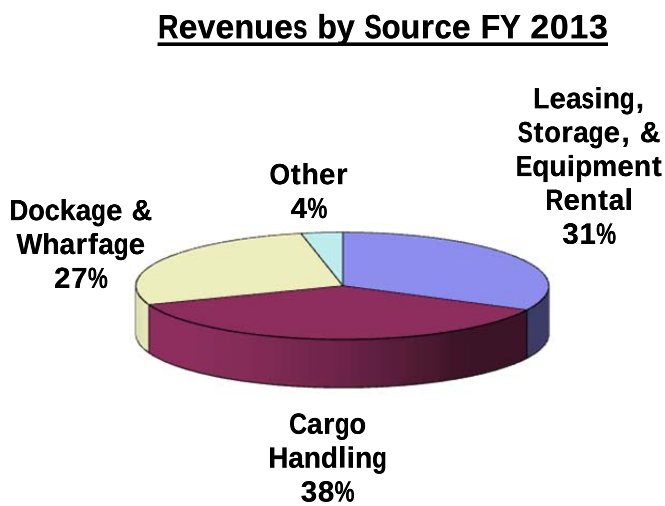
During Fiscal Year 2014, the Corporation earned $35,929 in operating revenue. This is a decrease of $821 or 2.2% from the operating revenue of $36,750 earned in Fiscal Year 2013.

Cargo handling, dockage, and wharfage revenue was $931 lower as a result of shortfalls in vehicles and Break-Bulk products of Chilean fruit, Argentine juice, and steel slabs.



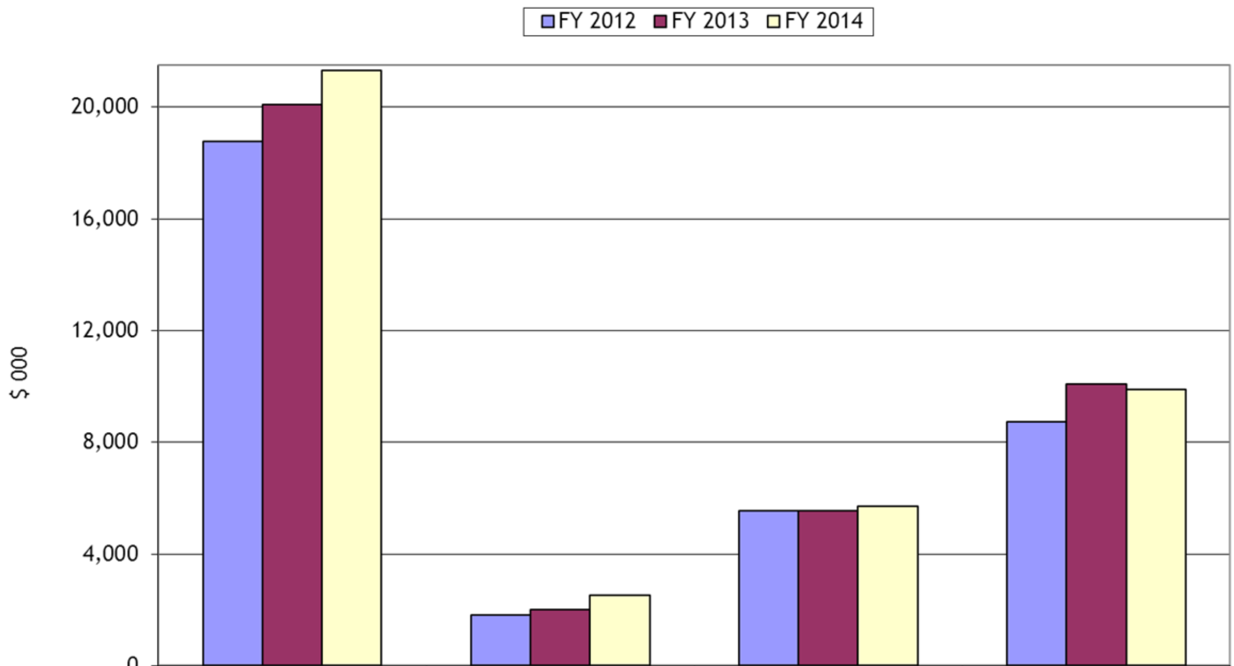
During Fiscal Year 2013, the Corporation earned $36,750 in operating revenue. This is an increase of $2,785 or 8.2% from the operating revenue of $33,965 earned in Fiscal Year 2012.

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



Operating Expenses:

Total operating expenses of $ 39,444 in Fiscal Year 2014 is an increase of 4.4% from Fiscal Year 2013.



	Salaries & Benefits	Electricity	Depreciation	Other Operating Expenses
FY 2012	18,755	1,806	5,537	8,730
FY 2013	20,105	2,014	5,556	10,088
FY 2014	21,325	2,509	5,715	9,895

Total salaries and related benefits expense increased by $1,220 mainly due to increases in labor hours required. Electricity expense increased due to a new summer fruit program requiring additional refrigeration, and higher prices. As included in other operating expenses, dredging expense increased by $200 due to additional dredging required. In addition, professional fees declined by $700, as the result of the settlement of the lawsuit regarding Berth 4 in July 2013 (see Note 16). Fuel costs increased by $222 as a result of increased crane usage and higher prices.

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

Capital Asset and Debt Administration

Capital Assets: The Corporation's total investment in capital assets as of June 30, 2014 and 2013 amounts to $164,968 and $166,938 (net of accumulated depreciation), respectively. These capital assets include land and improvements, buildings, docks and wharves, and machinery and equipment. The net decrease in the Corporation's investment in capital assets in Fiscal Year 2014 was $1,970, comprised of a modest increase in capital asset additions as offset by one more year of depreciation. The net increase in the Corporation's investment in capital assets in Fiscal Year 2013 was $3,623, comprised of capital asset additions and one more year of depreciation.

Capital investments in Fiscal Year 2014 consisted of rehabilitation of Berth 5, installation of a new C4 crane drive system, equipment purchases, and warehouse and facility upgrades. Capital acquisitions in Fiscal Year 2013 consisted of a federal security project, rehabilitation of Berth 5, equipment purchases, Berth 4 reconstruction, and various other upgrades.

Capital Assets

(Expressed in Thousands)

	2014	2013	2012
Land and improvements	$ 37,551	$ 37,551	$ 36,502
Buildings	89,601	89,452	88,891
Docks and wharves	63,524	62,142	58,736
Equipment	33,308	31,680	30,551
Streets and utilities	5,953	5,938	5,592
Vehicles and other assets	11,238	11,172	8,860
Subtotals	241,175	237,935	229,132
Accumulated depreciation	(77,940)	(72,225)	(66,770)
Totals	163,235	165,710	162,362
Construction in progress	1,733	1,228	953
Totals	$ 164,968	$ 166,938	$ 163,315

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

Notes Payable: At the end of the current fiscal year, the Corporation had notes payable outstanding of $25,297 including the current portion of $1,811. Of this amount, $5,006 comprises outstanding debt to the City of Wilmington (the City) incurred at the time of the acquisition of the Port of Wilmington (the Port) by the Corporation from the City in 1995. The Delaware River and Bay Authority (DRBA) is owed $2,599 as part of its financial participation in Warehouse H. The Transportation Trust Fund of the Delaware Department of Transportation (DelDOT) is owed $17,692 for funds borrowed in Fiscal Year 2002.

As of June 30, 2013, the Corporation had notes payable outstanding of $26,707. Of this amount, $5,348 comprises outstanding debt to the City incurred at the time of the acquisition of the Port by the Corporation from the City in 1995. The DRBA is owed $2,780 as part of its financial participation in Warehouse H. The Transportation Trust Fund of DelDOT is owed $18,579 for funds borrowed in Fiscal Year 2002. Additional information is available in Note 8 of the Notes to Financial Statements.

Financial Statements

Diamond State Port Corporation
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Current assets		
Cash and cash equivalents	$ 6,569,031	$ 5,582,540
Accounts receivable, net	2,223,557	2,922,619
Inventory	905,025	867,444
Prepaid expenses and other assets	779,506	1,236,712
Total current assets	10,477,119	10,609,315
Restricted assets		
Cash and cash equivalents	4,395,634	19,890,251
Investments	21,299,068	-
Total restricted assets	25,694,702	19,890,251
Capital assets - nondepreciable	27,237,362	26,732,641
Capital assets - depreciable, net	137,730,948	140,205,437
Total capital assets, net	164,968,310	166,938,078
Total assets	201,140,131	197,437,644
Deferred outflows of resources		
Refunding of debt	231,739	256,327
Current liabilities		
Current portion of notes payable	1,810,814	1,324,195
Accounts payable	182,569	72,507
Accrued expenses	5,547,309	7,458,542
Accrued interest payable	158,292	159,087
Due to the State of Delaware - pension costs	74,675	76,343
Deferred revenue	37,333	38,791
Total current liabilities	7,810,992	9,129,465
Long-term liabilities		
Notes payable, net of current portion	23,451,100	25,261,913
Total liabilities	31,262,092	34,391,378

Continued…

Diamond State Port Corporation

Statements of Net Position (Continued)

June 30, 2014 and 2013

	2014	2013
Deferred inflows of resources		
Refunding of debt	$ 266,931	$ 377,386
Net position		
Net investment in capital assets	139,671,204	140,230,910
Restricted - capital improvement fund	25,694,702	19,890,251
Unrestricted	4,476,941	2,804,046
Total net position	$ 169,842,847	$ 162,925,207

See notes to financial statements.

Diamond State Port Corporation
Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2014 and 2013

	2014	2013
Operating revenue		
Cargo handling	$ 13,218,518	$ 14,041,487
Leasing, storage, and equipment rental	11,665,007	11,582,909
Dockage and wharfage	9,879,227	9,988,410
Other operating revenue	1,166,262	1,137,677
Total operating revenue	35,929,014	36,750,483
Operating expenses		
Salaries and related benefits	21,325,566	20,105,358
Materials, supplies, and contractual services	12,403,392	12,102,153
Depreciation	5,714,875	5,556,163
Total operating expenses	39,443,833	37,763,674
Operating loss	(3,514,819)	(1,013,191)
Nonoperating income (expense)		
Interest expense	(934,476)	(1,140,890)
Interest income	21,992	9,153
Total nonoperating expense	(912,484)	(1,131,737)
Net loss before capital contributions	(4,427,303)	(2,144,928)
Capital contributions		
Federal grant	-	2,088,542
State appropriations and grants	11,344,943	10,000,000
Total capital contributions	11,344,943	12,088,542
Change in net position	6,917,640	9,943,614
Net position, beginning of year	162,925,207	152,981,593
Net position, end of year	$ 169,842,847	$ 162,925,207

See notes to financial statements.

Diamond State Port Corporation

Statements of Cash Flows

June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Cash received from customers and others	$ 36,626,618	$ 36,077,365
Cash payments to employees for services	(21,129,022)	(20,320,542)
Cash payments to suppliers for goods and services	(11,983,150)	(11,276,453)
Net cash provided by operating activities	3,514,446	4,480,370
Cash flows from noncapital financing activities		
Acquisition and construction of capital assets	(41,149)	(42,449)
Net cash used in noncapital financing activities	(41,149)	(42,449)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(5,703,958)	(7,137,455)
Interest paid on loans	(1,021,138)	(1,151,282)
Principal paid on loans	(1,324,194)	(1,638,292)
Capital contributions	11,344,943	12,168,782
Net cash provided by capital and related financing activities	3,295,653	2,241,753
Cash flows from investing activities		
Sales of investments	20,585,137	-
Purchases of investments	(41,884,205)	-
Interest on cash and investments	21,992	9,106
Net cash provided by (used in) investing activities	(21,277,076)	9,106
Change in cash and cash equivalents	(14,508,126)	6,688,780
Cash and cash equivalents, beginning of year	25,472,791	18,784,011
Cash and cash equivalents, end of year	$ 10,964,665	$ 25,472,791

Continued…

Diamond State Port Corporation

Statements of Cash Flows (Continued)

June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$ (3,514,819)	$ (1,013,191)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	5,714,875	5,556,163
Net change in the allowance for doubtful accounts	1,415	(952)
(Increase) decrease in assets		
Accounts receivable	697,647	(664,990)
Inventory	(37,581)	52,626
Prepaid expenses and other assets	457,206	(675,311)
Increase (decrease) in liabilities		
Accounts payable	110,062	(44,030)
Accrued expenses	88,767	1,277,349
Due to State of Delaware - pension costs	(1,668)	(3,735)
Deferred revenue	(1,458)	(3,559)
Net cash provided by operating activities	$ 3,514,446	$ 4,480,370
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,021,138	$ 1,151,282
Supplemental schedules of noncash capital and related financing activities		
Outflows from deferred outflows of resources	$ 24,588	$ 28,815
Inflows from deferred inflows of resources	$ 110,455	$ 27,614
Cost of capital asset disposals	$ -	$ 101,573
Cost of capital asset additions	$ -	$ 2,000,000
Accrued expenses incurred for acquisition of capital assets	$ -	$ (2,000,000)

See notes to financial statements.

Note 1 - Organization

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

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 U.S. generally accepted accounting principles applicable to governmental entities as prescribed by Government Accounting Standards Board (GASB). Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Operating revenues and expenses generally result from providing services and leasing in connection with the Corporation's ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are recorded as nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Corporation's policy to first apply the expense towards restricted resources and then toward 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 $77,003 and $75,588 as of June 30, 2014 and 2013, respectively.

(d) Inventory

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

(e) Restricted Investments

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

(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:

<u>*Cargo Handling*</u> - 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.

<u>*Dockage and Wharfage*</u> - 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.

<u>*Leasing*</u> - 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.

<u>*Storage*</u> - Represents charges for the storage of cargo in the Port's dry, refrigerated, and freezer warehouses and open areas.

<u>*Equipment Rental*</u> - Represents charges for equipment use against vessels and barges that bring their own crew to load and unload cargo.

(h) Capital Contributions

Capital contributions arise from State and federal grants, generally restricted by the contributors to capital acquisition and construction. Most capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses. The Fiscal Year 2014 contribution from the State totaled $11,344,943. The Fiscal Year 2013 contribution from the State in the amount of $10 million included $2 million that can be used temporarily for operating needs and later transferred back to the restricted account. During the Fiscal Year Ended June 30, 2013, no funds were temporarily withdrawn for operating needs. All prior borrowings have been repaid, and there is no balance to be transferred to the capital account as of the date of this report.

(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.

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(l) Adoption of GASB Statements

In Fiscal Year 2014, the Corporation adopted three new accounting standards, as follows:

GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in March 2012. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. Statement No. 65 amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The adoption of this Statement had an effect on the Statements of Net Position as amounts originally reported as assets and liabilities were reclassified to deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,* improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* There was no impact on the financial statements from implementing this standard.

GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, in April 2013. Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. There was no impact on the financial statements from implementing this standard.

In Fiscal Year 2013, the Corporation adopted three new accounting standards, as follows:

GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, in November 2010. This Statement is an amendment of GASB Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 61 amends certain requirements for inclusion of component units in the reporting government’s financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. It also requires consolidation, as a blended component unit, organizations that serve as financing vehicles for the primary government. The implementation of this standard had no impact on the presentation of the Corporation's financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into GASB’s authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989

FASB pronouncements that do not conflict with or contradict GASB pronouncements. There was no impact on the financial statements from implementing this standard.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of this Statement in the Corporation's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Balance Sheet" to "Statement of Net Position".

Note 3 - Cash and Investments

The 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 polices for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the Delaware Pension Employee Retirement System (DPERS), the Other Post-Employment Benefits (OPEB) Trust, and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer in various pooled investment funds (State Investment Pool) except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board.

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

Investment Guidelines and Management

The Policy specifies the type of investments that investment managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. government.

The following investments are permissible for all funds under the review of the Board, subject to the percentage limitations of the account:

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

Additional permissible investments for special-purpose accounts only:

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

The Policy categorizes all cash and special-purpose funds for which the State is financially accountable as follows:

A. Cash accounts divide the State's available cash into three parts:

   1. Collection and disbursement accounts,
   2. Cash and liquidity accounts,
   3. Reserve cash (intermediate) account.

B. Special purpose accounts - there are two primary types of special purpose accounts:

   1. Endowment accounts,
   2. Authority accounts: The State's Authorities (State agencies, local school districts, and component units) maintain a variety of fund types, including various operating funds, bond funds, and debt service reserve funds.

The Corporation's accounts are considered Authority accounts.

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

Custodial Credit Risk

<u>Deposits</u>

All State deposits are required by law to be collateralized by direct obligations of, or obligations that are guaranteed by the United States of America or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch.

The Board has also determined that State demand deposits need not be collateralized, provided that any bank that holds these funds has, for the last two years, a return on average assets of 0.5% or greater and an average equity - capital ratio of at least 1:20.

If the bank does not meet the above criteria, collateral must consist of one or more of the following:

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

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

As of June 30, 2014 and 2013, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

Investments

Investments of the Corporation are stated at fair value. At June 30, 2014, all of the Corporation’s investments were insured or registered, with securities held by the Corporation or the counterparty in the Corporation’s name.

Interest Rate Risk

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

The following table presents a listing of directly held investments and related maturities at June 30, 2014.

		Investment maturities (in years)			
	Fair value	**Less than 1**	**1 - 5**	**6 - 10**	**11 - 15**
Investment type:					
U.S. Treasury bonds and notes	$ 4,002,880	$ 4,002,880	$ —	$ —	$ —
U.S. government agency bonds and notes	8,425,748	3,928,068	4,497,680	—	—
Commercial paper	8,870,440	8,870,440	—	—	—
	$ 21,299,068	$ 16,801,388	$ 4,497,680	$ —	$ —

The Corporation held no investments at June 30, 2013.

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 and by investing only in authorized securities. The Corporation's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

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

Investment	**S&P**	**Moody's**	**Fitch**
Commercial Paper	A-1	P-1	F-1
Senior Long-Term Debt	A	A	A
Corporate Bonds	AA	Aa	AA

The investments in commercial paper are rated P-1 with Moody's and AA- to A+ with Standard & Poors. U.S. Treasury bonds and notes and U.S. government agency bonds and notes are rated at Aaa with Moody's and AAA with Fitch.

Investments in Excess of 5%

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

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

A. U.S. government - no restrictions.

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

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

   1. Domestic - No additional restrictions.

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

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

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

1. Domestic - No additional restrictions.

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

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

G. Money market funds - 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

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

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

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

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

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

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

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

The following issuers have investments at fair value in excess of 5% of the total investment portfolio (includes cash and cash equivalents) at June 30, 2014:

United States Treasury	$ 4,002,880	16%
Federal Home Loan Bank	3,997,940	16
Federal Farm Credit Bank	2,499,320	10
Federal Home Loan Mortgage Corporation	1,928,487	8

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 Federal Deposit Insurance Corporation limit were $6,913,308 and $5,705,607 as of June 30, 2014 and 2013, 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,:

	2014	2013
Capital Improvements	$ 25,694,702	$ 19,890,251

Assets restricted for capital improvements consisted of contributions from the State. These assets were invested in money market funds, certificates of deposit, commercial paper, U.S. Treasury bonds and notes, and government agency bonds and notes as of June 30, 2014. As of June 30, 2013, these assets were invested in money market funds. These investments carry ratings that are in compliance with the State's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds.*

Note 5 - Capital Assets

Property and equipment activity during Fiscal Year 2014 consisted of the following:

	June 30, 2013	Additions	Retirements	Transfers	June 30, 2014
Capital Assets - Nondepreciable					
Land	$ 25,504,410	$ -	$ -	$ -	$ 25,504,410
Construction in progress	1,228,231	3,745,107	-	(3,240,386)	1,732,952
Total Capital Assets - Nondepreciable	$ 26,732,641	$ 3,745,107	$ -	$(3,240,386)	$ 27,237,362
Capital Assets - Depreciable					
Land improvements	$ 12,047,167	$ -	$ -	$ -	$ 12,047,167
Buildings and warehouses	89,452,151	-	-	148,552	89,600,703
Docks, wharves, and rail	62,142,009	-	-	1,382,225	63,524,234
Equipment and cranes	31,679,564	-	-	1,627,986	33,307,550
Streets and water utilities	5,938,275	-	-	14,830	5,953,105
Vehicles and other	11,171,552	-	-	66,793	11,238,345
Total Capital Assets - Depreciable	212,430,718	-	-	3,240,386	215,671,104
Less: Accumulated Depreciation					
Land improvements	8,455,575	380,803	-	-	8,836,378
Buildings and warehouses	26,948,200	1,995,168	-	-	28,943,368
Docks, wharves, and rail	14,549,037	1,319,791	-	-	15,868,828
Equipment and cranes	11,965,081	1,280,654	-	-	13,245,735
Streets and water utilities	3,083,884	279,332	-	-	3,363,216
Vehicles and other	7,223,504	459,127	-	-	7,682,631
Total Accumulated Depreciation	72,225,281	5,714,875	-	-	77,940,156
Total Capital Assets - Depreciable, Net	$ 140,205,437	$ (5,714,875)	$ -	$ 3,240,386	$ 137,730,948

During Fiscal Year 2014, the Corporation paid $2,000,000 in accrued expenses for costs related to Berth 4 as part of a settlement (see Note 16).

Property and equipment activity during Fiscal Year 2013 consisted of the following:

	June 30, 2012	Additions	Retirements	Transfers	June 30, 2013
Capital Assets - Nondepreciable					
Land	$ 25,504,410	$ -	$ -	$ -	$ 25,504,410
Construction in progress	953,201	7,179,904	-	(6,904,874)	1,228,231
Total Capital Assets - Nondepreciable	$ 26,457,611	$ 7,179,904	$ -	$(6,904,874)	$ 26,732,641
Capital Assets - Depreciable					
Land improvements	$ 10,997,733	$ -	$ -	$ 1,049,434	$ 12,047,167
Buildings and warehouses	88,890,746	-	-	561,405	89,452,151
Docks, wharves, and rail	58,736,028	2,000,000	-	1,405,981	62,142,009
Equipment and cranes	30,550,733	-	(86,832)	1,215,663	31,679,564
Streets and water utilities	5,592,378	-	-	345,897	5,938,275
Vehicles and other	8,859,799	-	(14,741)	2,326,494	11,171,552
Total Capital Assets - Depreciable	203,627,417	2,000,000	(101,573)	6,904,874	212,430,718
Less: Accumulated Depreciation					
Land improvements	8,071,172	384,403	-	-	8,455,575
Buildings and warehouses	24,935,232	2,012,968	-	-	26,948,200
Docks, wharves, and rail	13,275,230	1,273,807	-	-	14,549,037
Equipment and cranes	10,786,687	1,265,226	(86,832)	-	11,965,081
Streets and water utilities	2,810,192	273,692	-	-	3,083,884
Vehicles and other	6,892,178	346,067	(14,741)	-	7,223,504
Total Accumulated Depreciation	66,770,691	5,556,163	(101,573)	-	72,225,281
Total Capital Assets - Depreciable, Net	$ 136,856,726	$ (3,556,163)	$ -	$ 6,904,874	$ 140,205,437

Depreciation expense was $5,714,875 and $5,556,163 for the years ended June 30, 2014 and 2013, 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 $5,091,808 and $5,600,576 for the Fiscal Years Ended June 30, 2014 and 2013, 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, 2014:

2015	$ 4,325,705
2016	4,280,501
2017	4,252,575
2018	4,283,839
2019	3,532,244
Thereafter	35,268,721
	$55,943,585

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, 2014 and 2013. 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,:

2014			
	Outstanding June 30, 2013	Payments and Other Reductions	Outstanding June 30, 2014
Transportation Trust Fund Note	$ 18,579,270	$ (887,732)	$ 17,691,538
City of Wilmington Port Debt Service Notes	5,348,261	(341,824)	5,006,437
Delaware River and Bay Authority	2,779,636	(180,505)	2,599,131
Total Notes Payable	26,707,167	$ (1,410,061)	25,297,106
Less: Deferred Outflows and Inflows of Resources - Net	121,059		35,192
Less: Current Maturities of Notes Payable	1,324,195		1,810,814
Long-Term Notes Payable (Net of Current Maturities)	$ 25,261,913		$ 23,451,100

2013	Outstanding June 30, 2012	Payments and Other Reductions	Outstanding June 30, 2013
Transportation Trust Fund Note	$ 19,432,759	$ (853,489)	$ 18,579,270
City of Wilmington Port Debt Service Notes	5,956,685	(608,424)	5,348,261
Delaware River and Bay Authority	2,954,814	(175,178)	2,779,636
Total Notes Payable	28,344,258	$ (1,637,091)	26,707,167
Less: Deferred Outflows and Inflows of Resources - Net	119,858		121,059
Less: Current Maturities of Notes Payable	1,638,292		1,324,195
Long-Term Notes Payable (Net of Current Maturities)	$ 26,586,108		$ 25,261,913

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

2014	Accrued Interest June 30, 2013	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2014
Transportation Trust Fund Note	$ 61,776	$ 737,056	$ (740,008)	$ 58,824
City of Wilmington Port Debt Service Notes	90,362	116,950	(114,342)	92,970
Delaware River and Bay Authority	6,949	80,470	(80,921)	6,498
Total Accrued Interest	$ 159,087	$ 934,476	$ (935,271)	$ 158,292

2013	Accrued Interest June 30, 2012	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2013
Transportation Trust Fund Note	$ 64,614	$ 771,413	$ (774,251)	$ 61,776
City of Wilmington Port Debt Service Notes	98,679	283,666	(291,983)	90,362
Delaware River and Bay Authority	7,387	85,811	(86,249)	6,949
Total Accrued Interest	$ 170,680	$ 1,140,890	$ (1,152,483)	$ 159,087

Transportation Trust Fund Note **-** On November 30, 2001, the Corporation entered into a loan agreement with the DelDOT. The Corporation borrowed $27,500,000. The funds were used to repay the balances in full of the original DRBA Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington-Deferred Payment Note.

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10,000,000 to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments were due March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next 20 years. The interest rate was 3.99% during 2014 and 2013. The loan matures March 2029.

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

Fiscal Year	Principal	Interest	Total
2015	$ 923,349	$ 704,392	$ 1,627,741
2016	960,395	667,346	1,627,741
2017	998,927	628,814	1,627,741
2018	1,039,005	588,736	1,627,741
2019	1,080,691	547,050	1,627,741
2020 - 2024	6,089,689	2,049,016	8,138,705
2025 - 2029	6,599,482	725,352	7,324,834
	$17,691,538	$5,910,706	$23,602,244

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 3.2% to 6.4%.

On October 20, 2001, the City issued $22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund $21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port-related portions of the new bonds issued and old bonds redeemed were $7,206,705 and $6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting charge of $261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by $281,293 over eleven years, resulting in an economic gain. The deferred outflow of resources on the refunding was accreted over the 11-year life of the debt. During the Fiscal Year Ended June 30, 2013, $5,303 was charged to interest expense, which is included in the Statements of Revenues, Expenses, and Changes in Net Position.

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 seventeen and one-half years, resulting in an economic gain. The deferred outflow of resources on the refunding is accreted over the seventeen and one-half-year life of the debt. During the Fiscal Years Ended June 30, 2014 and 2013, $24,588 and $23,512, respectively, was charged to interest expense, which is included in the Statements of Revenues, Expenses, and Changes in Net Position.

On March 1, 2013, the City issued $37,885,000 of general obligation bonds with interest rates of 3.00% to 5.00% to advance refund $37,190,000 of outstanding 2006 A Series general obligations bonds with interest rates of 3.50% to 5.00%. The Port-related portions of the new bonds issues and old bonds redeemed were $1,725,000 and $1,320,000, respectively, passed through to the Corporation. The effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred inflow of resources of $405,000, which is accreted over the three and one-half-year life of the Port-related debt. During the Fiscal Years Ended June 30, 2014 and 2013, $110,455 and $27,614, 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
2015	$ 701,468	$ 232,697	$ 934,165
2016	741,713	195,008	936,721
2017	683,008	157,052	840,060
2018	253,314	135,920	389,234
2019	273,832	122,742	396,574
2020 - 2023	2,317,910	230,336	2,548,246
	4,971,245	1,073,755	6,045,000
Deferred outflows and inflows of resources - net	35,192	-	35,192
Total	$5,006,437	$1,073,755	$6,080,192

The loan matures in July 2022.

Delaware River and Bay Authority Obligation - On March 1, 2005, the Corporation entered into an agreement with the DRBA whereby the Corporation agreed to lease to the DRBA land and a warehouse, located at the Port, for 20 years. The rent for the entire 20-year term of the lease was $4,000,000, to be paid in advance. Simultaneously, the Corporation and the DRBA entered into an operating agreement in which the Corporation agreed to make guaranteed payments to the DRBA in the amount of $21,786, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of 20 years, totaling $4,000,000 plus interest, which ranges from 1.50% to 5.32%.

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

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

Fiscal Year	Principal	Interest	Total
2015	$ 185,997	$ 75,430	$ 261,427
2016	191,654	69,773	261,427
2017	197,483	63,944	261,427
2018	157,555	103,872	261,427
2019	166,145	95,282	261,427
2020 - 2024	976,875	330,259	1,307,134
2025 - 2027	723,422	60,863	784,285
Total	$2,599,131	$799,423	$3,398,554

The loan matures in June 2027.

Note 9 - Capital Contributions

Since its inception and for Fiscal Years 2014 and 2013, the Corporation has received capital contributions from the State and federal grants as follows:

	Inception to Date	FY 2014	FY 2013
State of Delaware	$198,859,943	$11,344,943	$10,000,000
Federal	5,671,212	-	2,088,542
Total	$204,531,155	$11,344,943	$12,088,542

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

Plan Description - The Diamond State Port Corporation Pension Plan (Plan) is a single-employer defined benefit pension plan that covers all eligible employees of the Corporation. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. A member may retire after completing five years of service and after reaching normal retirement age of 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.

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.

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

Annual Pension Cost and Net Pension Obligation **-** The Corporation contributed 100% of its annual required contribution during the Fiscal Years Ended June 30, 2014 and 2013. Accordingly, there was no net pension obligation as of June 30, 2014 and 2013. The annual pension cost was equal to the annual required contribution of $1,020,883, $858,660, and $815,199 as of June 30, 2014, 2013, and 2012, respectively.

The annual required contribution for the current year was determined as part of the June 30, 2013 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 7.50% investment rate of return and (b) projected salary increases of 4.25%, which included an inflation component of 3.25%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014 was 15 years.

The Schedule of Funding Progress presented as Required Supplementary Information following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following table provides an analysis of the funding progress of the Plan as of June 30, 2013, the most recent valuation date:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2-1)	Funded Ratios (1/2)	Annualized Covered Payroll (5)	UAAL as a Percentage of Covered Payroll ((2-1)/5)
June 30, 2013	$ 20,964,000	$ 25,136,100	$ 4,172,100	83.4%	$ 11,381,400	36.7%

***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 $594,428 and $543,589 for the Fiscal Years Ended June 30, 2014 and 2013, 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 $1.60 and $1.75 per $100 of payroll, which was $254,079 and $260,519 for the Fiscal Years Ended June 30, 2014 and 2013, respectively.

Note 13 - Deferred Compensation Plan

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

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

Note 14 - Major Customers

Two major customer groups of the Corporation accounted for approximately 25.1% and 21.4%, respectively, of operating revenues (46.5% total) for the Fiscal Year Ended June 30, 2014. The same two customer groups accounted for approximately 24.7% and 20.2%, respectively, for the Fiscal Year Ended June 30, 2013.

Note 15 - Collective Bargaining

The Corporation employs 266 full-time and part-time benefits eligible employees. There are 71 full-time employees who are represented by the International Longshoremen's Association (ILA) - Local 1694-1. The most recent collective bargaining agreement (ILA Agreement) was ratified in March 2012 for the period October 1, 2010 through September 30, 2013. There are 129 part-time 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. The next ILA Agreement, effective for the period October 1, 2013 through September 30, 2016, is under negotiation. There are 15 full-time employees who are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement expiring on September 30, 2014. There are 51 administrative employees (19.2%) 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, 2014 and 2013, the Corporation had construction in progress of $1,732,952 and $1,228,231, respectively. Funding for capital projects has been received from operations, the State, and the U.S. Department of Homeland Security. As of June 30, 2014 and 2013, the Corporation had $25,694,702 and $19,890,251, respectively, in investments committed to capital projects (Note 4).

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

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

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

The Corporation is named a defendant in a lawsuit brought by the City relating to storm water charges billed by the City since 2009. As per the litigation, the City is seeking over $4,500,000 for amounts past due including late fee penalties and interest. The Corporation's management believes the charges billed by the City are inappropriate and contrary to the Port Acquisition Agreement entered into by the two parties. As of June 30, 2014 and 2013, the Corporation has accrued $2,873,424 and $2,133,113, respectively, of the storm water charges, and they are included in accrued expenses in the accompanying balance sheets. For the Fiscal Years Ended June 30, 2014 and 2013, the Corporation recorded $740,311 and $719,916, respectively, to operations for the storm water charges billed by the City. If the Corporation is unsuccessful in winning the lawsuit, the amount of ultimate loss to the Corporation, if any, may exceed the amount accrued.

Beginning in July 2010, the Corporation was a defendant in a lawsuit filed by a construction contractor. The case arose from claims on a project involving the rehabilitation and reconstruction of Berth 4. The construction contractor alleged that it had incurred additional costs unreimbursed by the Corporation and originally sought an unspecified amount of compensatory damages. During July 2013, the construction contractor accepted a settlement proposed by the Corporation. As a result, the Corporation was required to pay a portion of the construction contractor's costs in the amount of $2,000,000. For the year ended June 30, 2013, the Corporation capitalized these costs awarded to the construction contractor, as they related to construction costs (Note 5). This payment completed the Corporation's involvement in the matter.

Note 17 - Subsequent Events

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

Note 18 - Reclassifications

Certain reclassifications have been made to the prior year’s financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported change in net position or net position.

Required Supplementary Information

Diamond State Port Corporation
Schedule of Funding Progress
June 30, 2013, 2012, and 2011

The following provides an analysis of the funding progress of the Plan as of June 30, 2013, 2012, and 2011:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2-1)	Funded Ratios (1/2)	Annualized Covered Payroll (5)	UAAL as a Percentage of Covered Payroll ((2-1)/5)
June 30, 2013	$ 20,964,000	$ 25,136,100	$ 4,172,100	83.4%	$ 11,381,400	36.7%
June 30, 2012	18,929,800	23,039,400	4,109,600	82.2%	12,229,100	33.6%
June 30, 2011	17,197,500	20,631,700	3,434,200	83.4%	11,150,200	30.8%

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Right, By Your Side

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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 year ended June 30, 2014, 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 26, 2014.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Santora CPA Group

September 26, 2014
Newark, Delaware