

Diamond State Port Corporation

Financial Statements

(and Supplemental Material)

Years Ended June 30, 2011 and 2010

Report Issued: October 20, 2011

Report Reissued: December 5, 2011

Diamond State Port Corporation

Financial Statements
(and Supplemental Material)
Years Ended June 30, 2011 and 2010

Diamond State Port Corporation

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation
Wilmington, Delaware

We have audited the accompanying financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, as of and for the year ended June 30, 2011, as listed in the index. These financial statements are the responsibility of the Diamond State Port Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Diamond State Port Corporation, as of and for the year ended June 30, 2010, were reported on by McBride Shopa & Company, P.A., whose practice was combined with our firm and whose report dated September 14, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diamond State Port Corporation as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Independent Auditors' Report (Cont'd.)

The Management's Discussion and Analysis on pages 5 through 11 and the Required Supplementary Information on page 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BDO USA, LLP

Certified Public Accountants
September 27, 2011

Note: This report corrects our earlier issued report which stated that we audited the financial statements of the Diamond State Port Corporation as of and for the years ended June 30, 2011 and 2010. As reported above, the financial statements as of and for the year ended June 30, 2010 were audited by McBride Shopa & Company, P.A., whose practice was combined with our firm and whose report dated September 14, 2010 expressed an unqualified opinion.

Management's Discussion and Analysis

(all amounts in \$'000)

As management of the Diamond State Port Corporation (the Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the Fiscal Year Ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information detailed in the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Port exceeded its liabilities at June 30, 2011 by \$154,505 (*net assets*). Included in this amount is \$135,502 invested in capital assets net of related debt; and restricted net assets of \$16,835 after providing for relevant liabilities for payments for capital projects and for debt service payments.
- The Port's total net assets increased by \$6,366 during FY 2011. The Port incurred a net loss of \$3,815 before Capital Contributions. A comparable net loss for FY 2010 was \$3,687. The Port received \$10,100 from the State of Delaware for capital projects and \$81 in donated materials and services from the State of Delaware.

Overview of the Financial Statements

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

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

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

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

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

Basis of Accounting: The Financial Statements of the Port are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). The Port is a component unit of the State of Delaware. The Port's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges. The Port has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Port has elected not to follow subsequent private-sector (FASB) guidance.

Financial Analysis

As noted earlier, the Statements of Net Assets, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Port. The Port's assets exceeded liabilities by \$154,505 at the close of FY 2011.

Port's Net Assets		
(\$ '000)		
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 22,795	\$ 19,394
Capital assets - net of accumulated depreciation	<u>166,485</u>	<u>164,195</u>
Total assets	<u>189,280</u>	<u>183,589</u>
Current liabilities	6,101	4,565
Long-term liabilities	<u>28,674</u>	<u>30,885</u>
Total liabilities	<u>34,775</u>	<u>35,450</u>
Net assets:		
Invested in capital assets, net of related debt	135,502	131,803
Restricted	16,835	14,889
Unrestricted	<u>2,168</u>	<u>1,447</u>
Total net assets	<u>\$ 154,505</u>	<u>\$ 148,139</u>

Investment in Capital assets (e.g., land, buildings, machinery, and equipment) constitute 88% of the Port's net assets less any related debt used to acquire those assets that is still outstanding. The increase in net assets invested in Capital assets from \$131,803 in FY 2010 to \$135,502 in FY 2011 is mainly due to infrastructure improvements and equipment purchases. These capital assets are used to provide necessary or desired services to port customers and tenants, therefore, these assets are *not* available for future spending. The Port's investment in its capital assets is reported net of related debt, however, one should note that the resources needed to repay this debt must be provided from other sources, since under normal circumstances, the capital assets themselves cannot be used to liquidate these liabilities.

A certain amount of the Port's net assets represents resources that are subject to external restrictions on how they may be used. The value of these restricted assets includes \$10,100 in grants for Capital improvement projects received in FY 2011 from the State of Delaware as reduced by expenditure and outstanding liabilities incurred while creating such restricted assets, usable only for payments for Capital projects. The balance of net assets - \$2,168 - represents *unrestricted net assets* available for any Port related business use. The increase of \$721 from the unrestricted net assets of \$1,447 as of June 30, 2010, reflects an increase in current assets, as well as an increase in current liabilities, excluding Notes Payable, of the Port during FY 2011, see Statements of Net Assets.

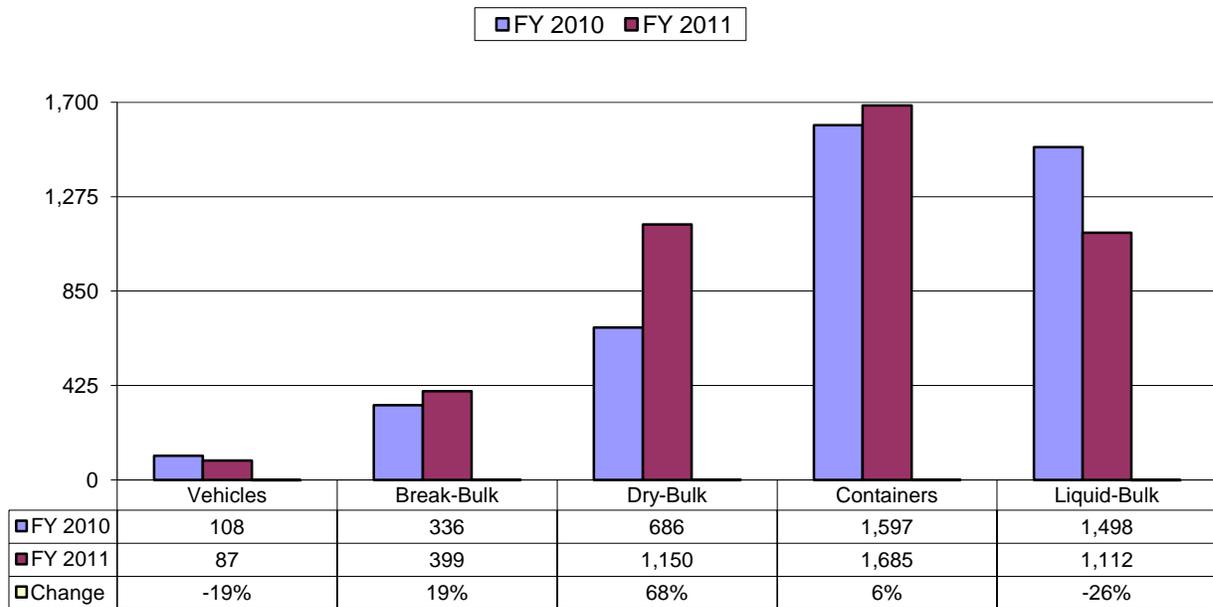
Port Activities. Port activities reduced the Port's net assets by \$3,815 during FY 2011. Key elements of this change are as follows:

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Cargo Handling	\$ 12,712	\$ 11,596
Dockage & Wharfage	8,179	6,715
Leasing, Storage & Equipment Rental	10,077	9,133
Other	<u>922</u>	<u>759</u>
Total Operating Revenues	<u>31,890</u>	<u>28,203</u>
Operating Expenses:		
Salaries, Wages & Benefits	18,669	16,893
Materials, Supplies & Services	10,229	8,604
Depreciation	<u>5,460</u>	<u>5,265</u>
Total Operating Expenses	<u>34,358</u>	<u>30,762</u>
Operating Loss:	(2,468)	(2,559)
Interest (Expense)	(1,349)	(1,262)
Interest Income	2	19
Insurance Recovery	<u>-</u>	<u>115</u>
Net Loss - before Capital Contributions:	<u>(3,815)</u>	<u>(3,687)</u>

Cargo Tonnage:

A total of 4.4 million tons of cargo passed over the Port's facilities in FY 2011, an increase of 5% over the total tons handled in FY 2010.

Cargo Volume by groups ('000 short tons)



Vehicle tonnage continues to be affected by the weak global economy and low demand for exported vehicles. Break-Bulk volume growth over FY 2010 is due to significant increases in imported fresh fruit from Chile and Argentina as well as livestock exports to Turkey and the Middle East. Dry-Bulk and scrap metal volume for FY 2011 was 1,200 tons, an increase of nearly 70% from the prior year of 700 tons. The most significant increases were in chemical salt of 200 tons and Petrocoke of 300 tons.

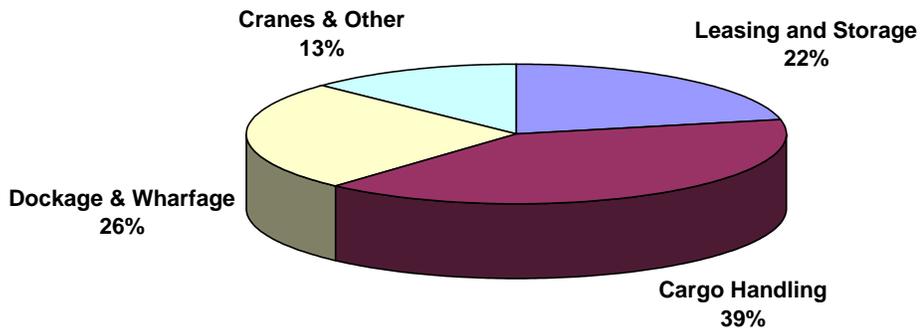
Northbound Container volume leveled off as compared to FY 2010 with the usual 52 weekly vessel calls from customers and fixed vessel capacity. Modest growth took place in Southbound export volumes. Liquid-Bulk volumes decreased in response to reduced economic demand for petroleum products and a change in market conditions.

Operating Revenue: (\$'000)

During FY 2011, the Port earned \$31,890 as operating revenue. This is an increase of \$3,687 or 13% from the operating revenue of \$28,203 earned in FY 2010.

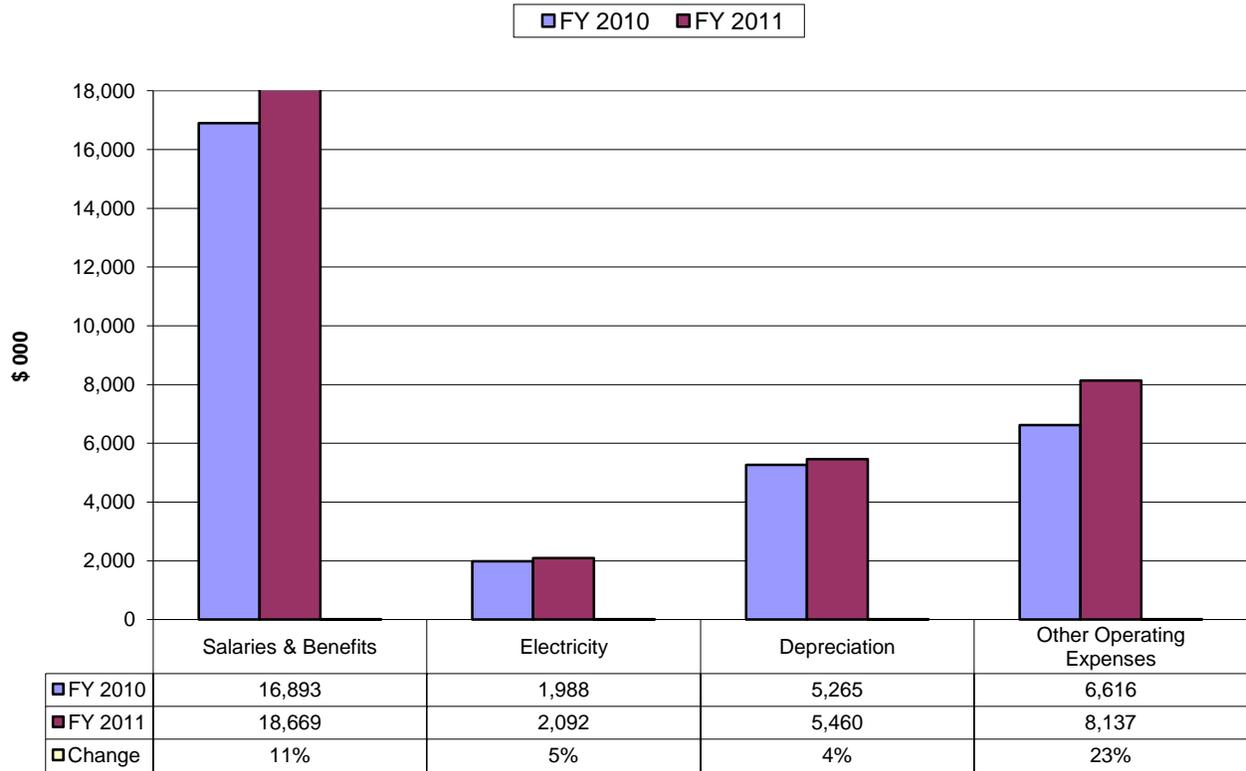
Increased FY 2011 volumes of Break-Bulk fruit and juice compared to the FY 2010 period amplified Cargo Handling revenue by \$1,100. Dry-Bulk volume growth augmented wharfage revenue by \$500. The dry bulk volume growth along with a change in container vessel unloading operations increased crane and dockage revenue by \$2,000.

Revenues by Source



Operating Expenses: (\$'000)

Total operating expense of \$ 34,358 in FY 2011 is an increase of \$3,596 from FY 2010.



Total Salaries and Benefit expense increased \$1,776 due to significantly more hours required to handle the increased labor intensive cargo volumes received. Increases in wage associated costs and medical premiums were a part of the total Salaries and Benefits Expense. Other Operating expenses grew by \$1,521 primarily due to increases in City of Wilmington storm water fees, dredging and professional fees.

Capital Asset and Debt Administration

Capital Assets: The Port's investment in capital assets as of June 30, 2011, amounts to \$166,485 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, docks and wharves, and machinery and equipment. The net increase in the Port's investment in capital assets in the current fiscal year was \$2,290, comprised of capital asset additions and one more year of depreciation.

Major capital assets acquired during FY 2011 were the completion of Berth 4, the purchase of a mobile harbor crane, and building improvements.

		Capital Assets (\$ '000)	
		2011	2010
Land and Improvements	\$	36,473	\$ 36,357
Buildings		88,650	87,440
Docks & Wharves		58,595	46,155
Equipment		29,563	25,043
Streets and Utilities		5,592	5,590
Vehicles and other assets		8,671	8,511
Sub total		227,544	209,096
Accumulated Depreciation		(61,242)	(55,782)
Total		166,302	153,314
Construction in progress		183	10,881
Total	\$	166,485	\$ 164,195

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

Notes Payable: At the end of the current fiscal year, the Port had total Notes Payables outstanding of \$30,982. Of this amount, \$7,130 comprises debt to the City of Wilmington incurred at the time of the acquisition of the Port by the State of Delaware from the City of Wilmington in 1995. The Delaware River and Bay Authority is owed \$3,170, as part of their financial participation in Warehouse H. The Delaware Department of Transportation (DelDOT) is owed \$20,253 for funds borrowed in FY 2002. \$207 and \$222 are owed to Wilmington Trust and Bank of America respectively for the purchase of handling equipment.

Additional information is available in Note 8 of Notes to Financial Statements.

Financial Statements

Diamond State Port Corporation
Statements of Net Assets

<i>June 30,</i>	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,884,640	\$ 1,069,936
Accounts receivable - net	2,748,319	2,175,543
Inventory	780,541	693,887
Prepaid expenses and other assets	547,125	565,898
Total Current Assets	5,960,625	4,505,264
Restricted Assets		
Investments	16,834,851	14,889,264
Capital Assets - Non-Depreciable	25,687,108	36,385,329
Capital Assets - Depreciable, net	140,797,918	127,809,521
Total Assets	\$ 189,280,502	\$ 183,589,378
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 183,233	\$ 159,611
Accrued expenses	3,365,191	2,627,437
Accrued interest payable	182,103	208,033
Due to the State of Delaware - pension costs	62,054	51,666
Notes payable - current	2,308,485	1,507,469
Deferred revenue	-	11,440
Total Current Liabilities	6,101,066	4,565,656
Note Payable - Long-Term	28,674,195	30,884,652
Total Liabilities	34,775,261	35,450,308
Net Assets		
Invested in capital assets - net of related debt	135,502,346	131,802,729
Restricted		
Capital Improvement Fund	16,834,851	14,889,264
Unrestricted	2,168,044	1,447,077
Total Net Assets	154,505,241	148,139,070
Total Liabilities and Net Assets	\$ 189,280,502	\$ 183,589,378

See accompanying independent auditors' report and notes to financial statements.

Diamond State Port Corporation

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended June 30,	2011	2010
Operating Revenue		
Handling	\$ 12,711,800	\$ 11,595,564
Dockage and wharfage	8,179,451	6,714,705
Leasing, storage and equipment rental	10,077,174	9,133,296
Other operating revenue	921,958	759,326
	31,890,383	28,202,891
Operating Expenses		
Salaries and benefits	18,669,511	16,892,779
Materials, supplies and contractual services	10,228,533	8,603,883
Depreciation expense	5,460,262	5,265,314
	34,358,306	30,761,976
Operating Loss	(2,467,923)	(2,559,085)
Nonoperating Income (Expense)		
Interest expense	(1,349,314)	(1,262,038)
Interest income	2,622	19,455
Insurance recovery	-	114,651
Loss on disposition of assets	-	(119)
	(1,346,692)	(1,128,051)
Net Loss Before Capital Contributions and Special Item	(3,814,615)	(3,687,136)
Capital Contributions		
State Bond Bill	10,100,000	2,000,000
Donated materials and services - State of Delaware	80,786	613,928
	10,180,786	2,613,928
Special Item		
Gain from restructuring of debt	-	116,246
Change in Net Assets	6,366,171	(956,962)
Net Assets, beginning	148,139,070	149,096,032
Net Assets, ending	\$ 154,505,241	\$ 148,139,070

See accompanying independent auditors' report and notes to financial statements.

Diamond State Port Corporation

Statements of Cash Flows

<i>Years Ended June 30,</i>	2011	2010
Cash Flows From Operating Activities		
Cash received from customers and others	\$ 31,439,081	\$ 28,584,863
Cash payments to employees for services	(18,399,896)	(16,820,805)
Cash payments to suppliers for goods and services	(9,927,160)	(8,204,476)
Net cash provided by operating activities	3,112,025	3,559,582
Cash Flows From Investing Activities		
Net (purchases) sales of investments	(1,945,587)	1,099,246
Interest on cash and investments	2,604	26,175
Net cash provided by investing activities	(1,942,983)	1,125,421
Cash Flows From Noncapital Financing Activities		
Insurance recovery	-	114,651
Acquisition and construction of capital assets	(41,231)	(55,395)
Net cash provided by noncapital financing activities	(41,231)	59,256
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(7,628,422)	(4,921,899)
Interest paid on loans	(1,277,216)	(457,737)
Principal paid on loans	(1,507,469)	(2,748,939)
Contributed capital	10,100,000	2,000,000
Net cash used by capital and related financing activities	(313,107)	(6,128,575)
Net Change in Cash and Cash Equivalents	814,704	(1,384,316)
Cash and Cash Equivalents, beginning of year	1,069,936	2,454,252
Cash and Cash Equivalents, end of year	\$ 1,884,640	\$ 1,069,936

Diamond State Port Corporation
Statements of Cash Flows

<i>Years Ended June 30,</i>	2011	2010
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (2,467,923)	\$ (2,559,085)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	5,460,262	5,265,314
Net change in the allowance for doubtful accounts	7,470	4,452
(Increase) decrease in:		
Accounts receivable	(580,246)	291,123
Inventory	(86,654)	(211,754)
Prepaid expenses and other assets	18,792	(9,911)
Increase (decrease) in:		
Accounts payable	23,622	75,270
Accrued expenses	737,754	708,035
Due to State of Delaware - pension costs	10,388	(2,570)
Deferred revenue	(11,440)	(1,292)
Net cash provided by operating activities	\$ 3,112,025	\$ 3,559,582
Supplemental Schedules of Noncash Capital and Related Financing Activities		
Accretion of deferred loss	\$ 98,028	\$ 9,026
Cost of disposed of fixed assets, resulting in loss of \$0 during 2011 and a loss of \$119 during 2010	\$ -	\$ 3,842
Interest capitalized as principal portion of long-term debt	\$ -	\$ 811,673
In-kind contribution from DelDOT - fixed assets	\$ 80,786	\$ 613,928
Gain on refinancing of debt	\$ -	\$ 116,246

See accompanying independent auditors' report and notes to financial statements.

Diamond State Port Corporation

Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

The Corporation has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Corporation has elected not to follow subsequent private-sector (FASB) guidance.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are shown net of an allowance for doubtful accounts of \$58,772 and \$51,302 in 2011 and 2010, respectively.

Inventory

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

Long-Term Investments

Long-term investments are stated at fair value.

Capital Assets

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

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

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

Revenues

The significant sources of operating revenue are:

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

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Dockage and wharfage -

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

Leasing -

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

Storage -

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

Equipment rental -

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

Capital Contributions

Capital contributions arise from State and Federal grants, generally restricted by the contributors to capital acquisition and construction. Most capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses. The State also has provided contributions in the form of materials and services in the amounts of \$80,786 and \$613,928 in 2011 and 2010, respectively.

Compensated Absences

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

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

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

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Deferred Loss

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

Estimates

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

3. Cash, Investments and Restricted Assets

The Cash Management Policy Board

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

Investment Guidelines and Management

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

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

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

The Corporation’s accounts are considered Authority Accounts.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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

Custodial Credit Risk

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

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

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

At June 30, 2011 and 2010, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above, and the deposits held by those institutions did not require collateralization.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statements of net assets, is under the control of the Corporation. The Corporation invests the deposited cash, including the cash float in short-term securities and other investments.

At June 30, 2011 and 2010, the bank balances of the Corporation's deposits were \$2,185,255 and \$1,422,526 respectively. Of the bank balances, the full non-interest bearing cash balance of \$2,185,255 was insured by the Federal Deposit Insurance Corporation (FDIC).

Investments

Investments of the Corporation are reported at fair value.

4. Restricted Assets

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

<i>June 30,</i>	2011	2010
Capital improvements	\$ 16,834,851	\$ 14,889,264

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

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

5. Capital Assets

Property and equipment changes during 2011 consisted of the following:

	2010	Additions	Retirements	Transfers	2011
Capital assets, non-depreciable					
Land	\$ 25,504,410	\$ -	\$ -	\$ -	\$ 25,504,410
Construction in progress	10,880,919	7,932,507	-	(18,630,728)	182,698
Total capital assets - non-depreciable	\$ 36,385,329	\$ 7,932,507	\$ -	\$ (18,630,728)	\$ 25,687,108
Capital assets, depreciable					
Land improvements	\$ 10,852,482	\$ -	\$ -	\$ 116,256	\$ 10,968,738
Buildings	87,440,502	-	-	1,209,649	88,650,151
Docks and wharves	46,154,637	-	-	12,439,951	58,594,588
Equipment	25,043,271	-	-	4,520,294	29,563,565
Streets and water utilities	5,589,659	-	-	2,719	5,592,378
Vehicles and other assets	8,510,896	80,784	-	79,006	8,670,686
Total capital assets, depreciable	183,591,447	80,784	-	18,367,875	202,040,106

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

	2010	Additions	Retirements	Transfers	2011
Less accumulated depreciation:					
Land improvements	6,951,380	601,193	-	-	7,552,573
Buildings	20,874,968	2,029,899	-	-	22,904,867
Docks and wharves	10,852,636	1,164,595	-	-	12,017,231
Equipment	8,474,156	1,086,560	-	-	9,560,716
Streets and water utilities	2,267,504	272,353	-	-	2,539,857
Vehicles and other assets	6,361,282	305,662	-	-	6,666,944
Total accumulated depreciation	55,781,926	5,460,262	-	-	61,242,188
Total capital assets, depreciable, net	\$ 127,809,521	\$ (5,379,478)	\$ -	\$ 18,367,875	\$ 140,797,918

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Depreciation expense was \$5,460,262 and \$5,265,314 for 2011 and 2010, respectively.

Construction in progress was \$182,698 with additional costs-to-complete the projects-in-process of approximately \$3.955 million as of June 30, 2011.

During 2011 and 2010, the State of Delaware contributed improvements in the amount of \$80,786 and \$613,928, respectively, to the Corporation.

6. Leasing Revenue

The Corporation leases certain Port terminal and storage space to tenants. Total rental income under these operating leases amounted to \$5,518,826 and \$5,405,704 for 2011 and 2010, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases with original lease term in excess in one year as of June 30, 2011.

Year Ending June 30,

2012	\$	5,635,727
2013		5,651,124
2014		5,715,783
2015		5,819,793
2016		6,018,935
Thereafter		52,922,997
	\$	81,764,359

7. Revolving Line of Credit

The Corporation has a \$3,000,000, unsecured, revolving line of credit from Wilmington Trust Company (WTC), none of which was outstanding at June 30, 2011 and 2010. Bank advances on the credit line are payable within 30 days of demand and carry an interest rate based on WTC's commercial rate index.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

8. Long-Term Debt

Long-term debt changes during 2011 and 2010 were as follows:

	2011			
	Outstanding June 30, 2010	Refinance/ Issued	Payments and Other Reductions	Outstanding June 30, 2011
Transportation Trust Fund Note	\$ 21,042,241	\$ -	\$ (788,915)	\$ 20,253,326
City of Wilmington Port Debt Service Notes	7,453,677	-	(323,710)	7,129,967
Delaware River and Bay Authority	3,382,312	-	(212,147)	3,170,165
Wilmington Trust Company	263,461	-	(56,156)	207,305
Bank of America - Master Lease	250,430	-	(28,513)	221,917
Total notes payable	32,392,121	\$ -	\$ (1,409,441)	30,982,680
Notes payable - current	1,507,469			2,308,485
Notes payable - long-term	\$ 30,884,652			\$ 28,674,195

	2010			
	Outstanding June 30, 2009	Refinance/ Issued	Payments and Other Reductions	Outstanding June 30, 2010
Transportation Trust Fund Note	\$ 20,230,568	\$ 811,673	\$ -	\$ 21,042,241
City of Wilmington Port Debt Service Notes	10,021,068	(116,246)	(2,451,145)	7,453,677
Delaware River and Bay Authority	3,591,302	-	(208,990)	3,382,312
Wilmington Trust Company	315,571	-	(52,110)	263,461
Bank of America - Master Lease	278,098	-	(27,668)	250,430
Total notes payable	34,436,607	\$ 695,427	\$ (2,739,913)	32,392,121
Notes payable - current	2,748,939			1,507,469
Notes payable - long-term	\$ 31,687,668			\$ 30,884,652

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Interest charges during 2011 and 2010 were as follows:

	2011			
	Accrued Interest June 30, 2010	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2011
Transportation Trust Fund Note	\$ 69,965	\$ 836,202	\$ (838,825)	\$ 67,342
City of Wilmington Port Debt Service Notes	133,028	439,248	(462,117)	110,159
Delaware River and Bay Authority	4,228	49,015	(49,280)	3,963
Wilmington Trust Company	812	17,685	(17,858)	639
Bank of America - Master Lease	-	7,164	(7,164)	-
Total accrued interest	\$ 208,033	\$ 1,349,314	\$ (1,375,244)	\$ 182,103
	2010			
	Accrued Interest June 30, 2009	Interest Expense Incurred	Payments and Other Reductions	Accrued Interest June 30, 2010
Transportation Trust Fund Note	\$ 67,265	\$ 814,373	\$ (811,673)	\$ 69,965
City of Wilmington Port Debt Service Notes	151,704	365,736	(384,412)	133,028
Delaware River and Bay Authority	4,489	52,176	(52,437)	4,228
Wilmington Trust Company	973	21,744	(21,905)	812
Bank of America - Master Lease	-	8,009	(8,009)	-
Total accrued interest	\$ 224,431	\$ 1,262,038	\$ (1,278,436)	\$ 208,033

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Transportation Trust Fund Loan

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

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next twenty-two years. Additionally, the State appropriated \$10,000,000 to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are due March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next twenty-one years. The interest rate was 3.99% during 2011 and 2010. The loan matures March 2029.

Interest expense charged to operations during 2011 and 2010 was \$836,202 and \$814,373, respectively.

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

Fiscal Year	Principal	Interest	Total
2012	\$ 820,567	\$ 807,174	\$ 1,627,741
2013	853,489	774,252	1,627,741
2014	887,732	740,009	1,627,741
2015	923,349	704,392	1,627,741
2016	960,395	667,346	1,627,741
2017-2021	5,411,820	2,726,885	8,138,705
2022-2026	6,588,141	1,550,563	8,138,704
2027-2029	3,807,833	261,520	4,069,353
	<u>\$ 20,253,326</u>	<u>\$ 8,232,141</u>	<u>\$ 28,485,467</u>

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

City of Wilmington Notes Payable

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

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

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund \$21,335,000 of outstanding 1992 A, B and C Series general obligation bonds with an average interest rate of 6.16%. The Port-related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss 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 loss on the refunding is accreted over the eleven-year life of the debt. The deferred loss balance as of June 30, 2011 and 2010 was \$10,383 and \$15,285, respectively.

On October 5, 2004, the City issued \$12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund \$11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were \$3,992,497 and \$3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$397,862, it reduces the Corporation's debt service payments by \$251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2011 and 2010 was \$284,142 and \$377,268 respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

On June 30, 2006, the State of Delaware paid the City on behalf of the Corporation, \$5,000,000, in lieu of amounts due for the Port-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling \$5,645,991, reducing the total amount owed to the City by \$5,645,991. The effect of the advance payment was a reduction of principal in the amount of \$5,087,389, a reduction of accrued interest due July 1, 2006 in the amount of \$308,844, and a resulting gain of \$396,233.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which the Corporation has correlating notes with the City. Overall, the Corporation will pay an additional \$60,000 in principal over the next nine years; however, the Corporation will save \$334,673 in interest during the same time period. In summary, the Corporation will pay \$274,673 less on the City notes due to the refunding/financing. Maturity for these bonds occurs on July 1, 2022.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, which the Corporation has correlating notes with the City. The immediate impact is a reduction in debt service of \$1,063,000 for 2011 and 2012. Overall, the Corporation will save \$116,246 in principal, resulting in an economic gain; however, the Corporation will pay an additional \$893,327 in interest over the next thirteen years.

Total deferred loss balance as of June 30, 2011 and 2010 was \$294,525 and \$392,553, respectively. The amortization of deferred loss of \$98,028 and \$9,026 during 2011 and 2010, respectively, is charged to interest expense.

Principal and interest payments made on the note were \$421,738 and \$364,089, respectively, during 2011, and \$2,460,172 and \$375,386, respectively, during 2010.

Interest expense on the note in 2011 and 2010 was \$341,220 and \$356,710, respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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

Fiscal Year	Principal	Interest	Total
2012	\$ 1,182,665	\$ 320,307	\$ 1,502,972
2013	609,625	290,783	900,408
2014	660,957	264,347	925,304
2015	701,468	232,697	934,165
2016	741,713	195,008	936,721
2017-2021	2,473,411	592,670	3,066,081
2022-2023	1,054,653	53,380	1,108,033
	7,424,492	1,949,192	9,373,684
Deferred loss on refunding	(294,525)	-	(294,525)
Total	\$ 7,129,967	\$ 1,949,192	\$ 9,079,159

Delaware River and Bay Authority Obligation

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

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

Interest expense incurred on this obligation was \$49,015 and \$52,176 in 2011 and 2010, respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

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

Fiscal Year	Principal	Interest	Total
2012	\$ 215,351	\$ 46,076	\$ 261,427
2013	175,178	86,249	261,427
2014	180,506	80,921	261,427
2015	185,997	75,430	261,427
2016	191,654	69,773	261,427
2017-2021	881,138	425,996	1,307,134
2022-2026	1,086,290	220,844	1,307,134
2027-2027	254,051	7,379	261,430
	<u>\$ 3,170,165</u>	<u>\$ 1,012,668</u>	<u>\$ 4,182,833</u>

Wilmington Trust Company Loan

The Corporation entered into a loan agreement with the Wilmington Trust Company (WTC) on August 17, 2007 for \$401,973 to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of \$6,168 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.40%.

Interest expense incurred on this obligation was \$17,685 and \$21,744 during 2011 and 2010, respectively.

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

Fiscal Year	Principal	Interest	Total
2012	\$ 60,518	\$ 13,496	\$ 74,014
2013	65,218	8,796	74,014
2014	70,283	3,731	74,014
2015	11,286	105	11,391
	<u>\$ 207,305</u>	<u>\$ 26,128</u>	<u>\$ 233,433</u>

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

Bank of America Master Lease

In 2008, the Corporation utilized the State of Delaware's Master Lease program (as administered by Bank of America (BOA)) to purchase twelve forklifts for \$307,669 using two loans. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates.

Interest expense incurred on this obligation was \$7,164 and \$8,009 during 2011 and 2010, respectively.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 29,385	\$ 6,292	\$ 35,677
2013	30,283	5,394	35,677
2014	31,209	4,468	35,677
2015	32,163	3,514	35,677
2016	33,146	2,531	35,677
2017-2018	65,731	1,996	67,727
	<u>\$ 221,917</u>	<u>\$ 24,195</u>	<u>\$ 246,112</u>

9. Contributed Capital

Since its inception and for 2011 and 2010, the Corporation has received capital contributions from the State of Delaware and Federal grants as follows:

	<u>Inception to Date</u>	<u>2011</u>	<u>2010</u>
State of Delaware	\$ 177,515,000	\$ 10,100,000	\$ 2,000,000
Federal	3,066,866	-	-
Total	\$ 180,581,866	\$ 10,100,000	\$ 2,000,000

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

10. Pension Plan and Other Postretirement Employee Benefits

Plan Description

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

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

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

Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The Corporation contributed 100% of its annual required contribution during the Fiscal Years 2011, 2010 and 2009. Accordingly, there was no net pension obligation as of June 30, 2011, 2010 and 2009. The annual pension cost was equal to the annual required contribution of \$725,309 in 2011, \$588,230 in 2010, and \$689,655 in 2009.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

The annual required contribution for the current year was determined as part of the June 30, 2010 actuarial valuation (the most recent valuation) using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 4.75% which included an inflation component of 3.75%. 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, 2011 is 15 years.

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

The following provides an analysis of the funding progress of the Plan as of June 30, 2010, 2009 and 2008:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratios (1)/(2)	Annualized Covered Payroll	UAAL as a Percentage of Covered Payroll (3)/(5)
June 30, 2010	\$15,418,000	\$18,354,000	\$ 2,936,000	84.0 %	\$11,224,000	26.2 %
June 30, 2009	\$14,353,400	\$16,283,900	\$ 1,930,500	88.1 %	\$11,070,600	17.4 %
June 30, 2008	\$13,390,700	\$14,139,200	\$ 748,500	94.7 %	\$10,269,600	7.3 %

Other Postretirement Employee Benefits

Effective for Fiscal Year ending June 30, 2008, GASB requires the State of Delaware and its component units to account for other postretirement employee benefits. Retirees of the Corporation are permitted to enroll in the State of Delaware's health insurance plan in which they pay the premiums in full on a monthly basis. The Corporation is not obligated to pay for medical costs in excess of premiums under the Plan. Therefore, the Corporation has not recorded a liability for other postretirement employee benefits in its financial statements.

11. Lease Commitments

The Corporation leases various equipment and outside storage space on a short-term basis for its operations. Rental expense was \$551,026 and \$381,486 for 2011 and 2010, respectively.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

12. Risk Management

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries and illnesses to employees, and natural disasters. The Corporation has obtained commercial insurance to cover the risk of these losses with the exception of workers' compensation claims, where the Corporation is self-insured through the State of Delaware's self-insurance program. Settled claims have not exceeded the commercial insurance limits in any of the past five fiscal years. The Corporation was obligated to pay to the State's program a monthly charge equal to \$1.95 and \$1.90 per \$100 of payroll which was \$271,038 and \$244,706 for the Years Ended June 30, 2011 and 2010, respectively.

13. Deferred Compensation Plan

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

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

14. Major Customers

Two major customer groups of the Corporation accounted for approximately 24.8% and 19.1%, respectively, of operating revenues (43.9% total) for the Year Ended June 30, 2011. The same two customers accounted for approximately 28.7% and 20.9%, respectively, for the Year Ended June 30, 2010.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

15. Collective Bargaining

The Corporation employs two hundred fifty-four (254) full-time and part-time benefits eligible employees. Seventy-eight (78) full-time employees are represented by the International Longshoremen's Association (ILA) - Local 1694-1. The most recent collective bargaining agreement was ratified in August 2008 for the period October 1, 2007 through September 30, 2010. Negotiations for a new collective bargaining agreement were ongoing as of the report date. One hundred seven (107) part-time employees (only those working over 800 hours in a calendar year) are also represented by the International Longshoremen's Association, under the same collective bargaining agreement. Fifteen (15) full-time employees are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement. There are fifty-four (54) administrative employees not covered under collective bargaining agreements. The Corporation also employs a number of casual employees hired as needed on a daily basis to supplement the unionized work force that are not covered by a collective bargaining agreement.

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, 2011 the Corporation had construction in progress of \$182,698. Funding for capital projects has been received from operations, the State of Delaware and the U.S. Department of Homeland Security. As of June 30, 2011, the Corporation had \$16,834,851 in cash and 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. These claims and legal proceedings are not likely to have a material adverse impact on the Corporation. In addition, the Corporation currently has approximately \$272,000 accrued for pending claims or threatened litigation for which unfavorable outcome is considered probable.

See accompanying independent auditors' report.

Diamond State Port Corporation

Notes to Financial Statements

On July 28, 2010, the Port was sued in the United States District Court by its construction contractor on a project involving the rehabilitation and reconstruction of Berth 4. The contractor alleges that it has incurred additional costs and it seeks an unspecified amount of compensatory damages costs. The Corporation responded by seeking dismissal of that litigation, and is contesting the case vigorously. At this point, it is premature to offer any evaluation as to the likely outcome or range of potential loss, if any.

In August 2010, a third-party complaint was filed against the Corporation by a consultant on the same project referenced in the preceding paragraph, seeking indemnification and contribution in conjunction with claims asserted against the design consultant by that same construction contractor. The Corporation is also contesting the claims in that litigation vigorously. It also would be premature to offer any evaluation as to the likelihood of outcome or range of potential loss, if any, in conjunction with that litigation.

17. Subsequent Events

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

18. Reclassifications

Certain amounts in the 2010 financial statements were reclassified to conform with the 2011 presentation.

See accompanying independent auditors' report.

Supplemental Material

Diamond State Port Corporation
Required Supplemental Information

Pension Funding Status and Progress

The following provides an analysis of the funding progress of the Plan as of June 30, 2010, 2009, and 2008:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratios (1)/(2)	Annualized Covered Payroll	UAAL as a Percentage of Covered Payroll (3)/(5)
June 30, 2010	\$15,418,000	\$18,354,000	\$ 2,936,000	84.0 %	\$11,224,000	26.2 %
June 30, 2009	\$14,353,400	\$16,283,900	\$ 1,930,500	88.1 %	\$11,070,600	17.4 %
June 30, 2008	\$13,390,700	\$14,139,200	\$ 748,500	94.7 %	\$10,269,600	7.3 %



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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*

To the Board of Directors and Management
of the Diamond State Port Corporation

We have audited the financial statements of the Diamond State Port Corporation as of and for the year ended June 30, 2011 and have issued our report thereon dated September 27, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Diamond State Port Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 Diamond State Port Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Diamond State Port Corporation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Diamond State Port Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of the Diamond State Port Corporation, the Office of Auditor of Accounts and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

Certified Public Accountants
September 27, 2011