PORT OF PALM BEACH DISTRICT

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT THEREON

SEPTEMBER 30, 2008

PORT OF PALM BEACH DISTRICT
SEPTEMBER 30, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Port of Palm Beach District
Riviera Beach, Florida

We have audited the accompanying statement of net assets of the Port of Palm Beach District as of and for the year ended September 30, 2008, and the related statements of revenues, expenses and changes in net assets for the year then ended which collectively comprise the Port of Palm Beach District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Port of Palm Beach District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Palm Beach District as of September 30, 2008, and the respective changes in financial position, and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 27, 2009 on our consideration of the Port of Palm Beach District'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 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.

The management's discussion and analysis shown on pages 3 through 10 are not a required part of the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port of Palm Beach District's basic financial statements. The accompanying schedules, listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General and is not a required part of the basic financial statements of the Port of Palm Beach District. The schedule of expenditures of federal awards and state financial assistance and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The schedule of operating statistics presented on page 51 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
April 27, 2009

The following Management's Discussion and Analysis (MD&A) of the financial performance and activity of the Port of Palm Beach District (Port) is provided as both an introduction to and as assistance in the understanding to the financial statements of the Port for the fiscal year ended September 30, 2008. It also provides selected comparisons to the prior fiscal year ended September 30, 2007. The information represented should be read in conjunction with the financial statements, notes and supplemental schedules found in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policy, practice and procedures fall under the auspices of the Government Accounting Standards Board ("GASB"). The Port's financial transactions and subsequent statements are prepared according to the GASB Statement 34 reporting model, as mandated by the GASB. The purpose of the GASB 34 reporting model is to consolidate two basic forms of governmental accounting, governmental (such as municipalities) and proprietary (those entities which generate their own revenues and therefore are similar to a private business such as the Port). The Port is considered a proprietary form of government and its financial transactions are recorded in a single Enterprise Fund.

The financial statements are prepared on the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. Capital assets, except land, are capitalized and depreciated over their useful life. Please refer to Note 1 in the accompanying financial statements for a summary of the Port's significant accounting policies. Following this MD&A are the basic financial statements and supplemental schedules of the Port.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and notes to the financial statements. The basic financial statements include:

- The Statement of Net Assets which presents the financial position of the Port at the end of the fiscal year. The statement includes all assets and liabilities of the Port, with the difference reported as net assets. Net assets are an indicator of the current fiscal health of the organization and the Port's financial position over time.

- The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, some revenues and expenses are reported in this statement for items that will result in cash flows in future fiscal periods.

- The Statement of Cash Flows presents information about the cash and cash equivalent activity for the fiscal year, resulting from operating, non-capital financing, capital financing and investing activities.

Financial Operating Highlights

- Operating Revenues decreased by $1.6 million, 12.9%, from $12.6 million in FY 2007 to $11.0 million in FY 2008. Wharfage revenue fell by nearly $480 thousand primarily as a result of a decline in the shipment of both fuel oil and sugar as well as a decline in Day Cruise passengers in FY 2008. Dockage revenue declined by nearly $474 thousand as a result of lower fees collected from the Port's Day Cruise operations. The Suncruz vessel ceased operation in FY 2008 and Dockage fees were abated for the Princess vessel as its owner, ITG-Vegas continued to operate through bankruptcy while they sought a buyer for the Princess vessel. The vessel was sold to a new owner early in FY 2009.

- Parking fees fell by slightly over $400 thousand as a result of the loss of the Suncruz day cruise vessel and concessions made to ITG-Vegas to assist them through their bankruptcy. Cruise and cargo terminal fees and security fees dropped by $246 thousand as a result of the Port experiencing both lower cargo volumes and fewer day cruise passengers in FY 2008.

- Operating Expenses increased by slightly over $648 thousand in FY 2008. Engineering and Maintenance expenses increased by $628 thousand from $1.9 million in FY 2007 to $2.5 million in FY 2008. Of this increase, $480 thousand is related to the Dredging Study being conducted by the Army Corp. of Engineers. This is a one-time study to determine the maximum depth potential of the Lake Worth Inlet. Administration Expense declined by approximately $107 thousand as a result of the Communications Department being merged into the Business Development Department. Business Development increased by slightly over $200 thousand as a result of the above mentioned merger and an increase in trade related spending.

- Depreciation Expense was consistent at approximately $3.7 million in both FY 2008 and FY 2007. A prior period adjustment reduced FY 2007 Depreciation expense by $345 thousand from the amount previously reported.

- Operating Loss was $1.6 million in FY 2008 compared to Operating Income of $670 thousand in FY 2007.

- The Port recognized Non-Operating Expenses of $1.5 million in FY 2008. This was $314 thousand less than FY 2007. Investment Earnings fell by over $700 thousand both as a result of cash balances declining as a new warehouse facility was constructed and interest rates falling precipitously from FY 2007 levels. The Port's Loss on Disposition of Assets was minimal in FY 2008 resulting in a decrease of $283 thousand when compared to the prior year. Asset Transfers declined by nearly $445 thousand. The construction of the Radiation Portal Monitor was completed and the asset was transferred to the Federal Government. Interest Expense was $333 thousand less than FY 2007 as a result of both capitalizing interest related to the new warehouse that was completed and capitalized in FY 2008 and the full year impact of the refunding of the 1996 B Bonds in FY 2007.

- Loss Before Contributions was a $3.1 million in FY 2008 compared to a loss of $1.2 million in FY 2007.

- The Port fully met all debt payment requirements on a timely basis in FY 2008, however, the Port did not generate the Net Revenue level required to meet certain Bond Covenants.

- Capital Contributions – Grants amounted to $ 9.1 million in FY 2008 compared to $3.9 million in FY 2007. This increase was primarily the result of reimbursements related to the Port's major current infrastructure improvement – Southgate Cargo Facility.

- The Port experienced an increase in Net Assets for FY 2008 of $ 6.0 million as compared to the increase of $2.7 million in FY 2007.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the Port at the end of the fiscal year and includes all assets and liabilities of the Port. Net assets are the difference between total assets and total liabilities and is an indicator of the current fiscal health of an organization. A summary of the Port's assets, liabilities, and net assets at September 30, 2008 and 2007 is as follows:

	September 30	
	2008	**2007**
Assets		
Current assets (including restricted assets)	$ 19,864,227	$ 27,512,589
Noncurrent assets		
Capital Assets, net	115,463,563	105,963,376
Other noncurrent assets	1,070,515	1,167,551
Total assets	136,398,305	134,643,516
Liabilities		
Current liabilities (including payable from restricted assets)	4,119,274	6,730,489
Noncurrent liabilities		
Revenue Bonds	45,638,211	47,290,172
Other noncurrent liabilities	132,490	73,194
Total liabilities	49,889,975	54,093,855
Net Assets		
Invested in capital assets, net of related debt	70,379,263	58,970,700
Restricted	9,051,841	13,183,712
Unrestricted	7,077,226	8,395,249
Total net assets	$ 86,508,330	$ 80,549,661

Net Assets in FY 2008 reached $86.5 million, an increase of 7.4 % or $ 6.0 million over FY 2007.

- Current Assets decreased by $7.6 million primarily as a result of a $2.2 million decrease in Grant Receivables and a $5.6 million decrease in cash and investments that were used to fund both capital projects and operating needs. Partially offsetting this reductions were higher Prepaid Expenses.

- A prior period adjustment was made to Net Capital Assets in order to recognize the write-off of a non-revenue generating asset. The write-off was reviewed by and was supported by our Auditors. The net amount of the write-off was $16.1 million. The Port of Palm Beach District constructed a residential traffic bridge on a state road so as to create continuity between the east and west sides of the Port. The bridge was completed and capitalized in FY 2001. Shortly thereafter the State of Florida accepted all responsibility for maintenance and repair of the bridge. However, the Port continued to recognize the asset and record annual depreciation expense. To allow for comparative statements for FY 2008 and FY 2007, the retroactive adjustment was effective September 30, 2006.

- The increase in Net Capital Assets of $ 9.5 million was primarily attributable to completion of the Southgate Cargo Facility in FY 2008.

- The decrease in Current Liabilities was the result of contracts payable decreasing by $2.6 million due to vendor payments related to the Southgate Cargo Facility construction.

- The decrease in Revenue Bonds is the result of the FY 2008 principal payment of $2.1 million being partially offset by an increase in accreted interest payable.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Change in Net Assets is an indicator of whether the overall fiscal condition of an organization has improved or worsened during the year. The following is a summary of the Statements of Revenues, Expenses and Changes in Net Assets:

	Fiscal Year Ended September 30	
	2008	**2007**
Gross operating revenues	$ 10,959,147	$ 12,576,647
Operating expenses before Depreciation	(8,893,846)	(8,242,544)
Depreciation	(3,660,573)	(3,664,335)
Operating Income/(Loss) after Depreciation	(1,595,272)	669,768
Net non-operating expenses	(1,919,873)	(1,791,776)
Asset transfers	(453,559)	(898,264)
Grant revenue	836,505	839,574
Income / (Loss) before Contributions	$ (3,132,199)	$ (1,180,698)

GROSS OPERATING REVENUES

A summary of gross operating revenues for the fiscal years ended September 30, 2008 and 2007 follows:

	Fiscal Year Ended September 30	
	2008	**2007**
Gross operating revenues:		
Wharfage (including Passenger Wharfage)	$ 3,521,495	$ 4,000,634
Rent	3,471,814	3,419,133
Dockage	1,179,018	1,652,796
Parking	193,691	599,402
Cruise and cargo terminal fees	623,528	756,518
Security Fees	651,655	764,598
Switching	442,195	382,950
Identification Badging	164,782	286,963
Utilities and miscellaneous	710,969	713,653
Total	$ 10,959,147	$ 12,576,647

Gross Operating Revenues in FY 2008 decreased by $ 1.6 million from FY 2007.

- Wharfage in FY 2008 was lower than prior year by $479 thousand primarily as a result of a 35% reduction in fuel oil shipments from Florida Power and Light, a 29% reduction in sugar shipments and a reduction in Day Cruise Passengers.

- Dockage declined by $474 thousand from FY 2007 primarily as the result of the Dockage abatement provided to ITG-Vegas to assist them through bankruptcy in order to allow the ultimate sale of the Princess vessel, as well as, the loss of the Suncruz Day Cruise Operation in FY 2008.

- Parking fees decreased by $406 thousand as a result of both the ceasing of the Suncruz Day Cruise operation and the temporary elimination of self-parking fees in FY 2008. Self-parking fees were abated as an effort to support the ITG –Vegas Operation until the Princess vessel could be sold.

- Cruise and cargo terminal fees, and security fees decreased by $246 thousand from FY 2007 primarily as a result of lower cargo tonnage and fewer passengers in FY 2008.

- All other revenue declined by $13 thousand from FY 2007.

EXPENSES

A summary of operating expenses for the fiscal years ended September 30, 2008 and 2007 follows:

	Fiscal Year Ended September 30	
	2008	**2007**
Operating expenses:		
General Expenses	$ 1,917,359	$ 1,916,148
Engineering and Maintenance	2,530,948	1,902,623
Security	1,862,794	1,877,450
Administration	1,219,497	1,326,901
Business Development	637,655	431,742
Operations	628,559	675,119
Amortization	97,034	112,561
	8,893,846	8,242,544
Depreciation	3,660,573	3,664,335
Total	$ 12,554,419	$ 11,906,879

Operating Expenses in FY 2008 increased $648 thousand from FY 2007.

- Engineering and Maintenance Expense increased by $628 thousand from FY 2007. Of this amount, $480 thousand represents expenses related to the Dredging Study being conducted by the Army Corp. of Engineers. This is a one-time study to determine the maximum depth potential of the Lake Worth Inlet.

- Administration Expense declined by $107 thousand primarily the result of the transfer of employees into the Business Development Department to address the Port's communication needs.

- Business Development Expense increased by $206 thousand as a result of both the increase in salary expense addressed above and additional expenditures in Trade Development reflecting increased marketing efforts in FY 2008.

- Operations Expenses declined by $47 thousand primarily the result of eliminating the self-parking attendant not required during the year.

NON-OPERATING REVENUES AND EXPENSES AND STATEMENT OF CHANGES IN NET ASSETS

A summary of non-operating revenues / expenses and changes in net assets for FY 2008 and FY 2007 follows:

	Fiscal Year Ended September 30	
	2008	**2007**
Operating Income (Loss)	$ (1,595,272)	$ 669,768
Non-operating revenues (expenses):		
Investment earnings	555,819	1,273,597
Operating Grant revenue	836,505	839,574
Interest expense	(2,473,680)	(2,806,939)
Loss on disposition of assets	(2,012)	(285,493)
Asset transfers	(453,559)	(898,264)
Contingency gain from insurance proceeds	-	27,059
Net non-operating expenses	(1,536,927)	(1,850,466)
Income (loss) before contributions	(3,132,199)	(1,180,698)
Capital contributions - grants	9,090,868	3,855,281
Change in net assets	5,958,669	2,674,583
Total net assets - beginning, as restated	80,549,661	77,875,078
Total net assets - ending	$ 86,508,330	$ 80,549,661

Non-Operating Expenses in FY 2008 were $314 thousand favorable to the prior year.

- Investment Earnings fell by over $700 thousand as a result of cash balances declining due as the new warehouse facility was constructed and interest rates falling significantly from FY 2007 levels.

- The Port's Loss on Disposition of Assets was minimal in FY 2008 resulting in a decrease of $283 thousand compared to the prior year. Asset Transfers declined by nearly $445 thousand as the construction of the Radiation Portal Monitor was completed and the asset was transferred to the Federal Government.

- Interest Expense decreased $333 thousand as a result of both capitalizing interest related to the new warehouse and the full year impact of the refunding of the 1996 B Bonds in FY 2007.

Capital Contributions from grants were $9.1 million in FY 2008.

- This represented an increase of $5.2 million from the $3.9 million received in FY 2007. The primary reason for this increase was the impact of the grant reimbursement related to the Southgate Cargo Facility.

Net Assets increased by $ 6.0 million in FY 2008 compared to an increase of $ 2.7 million in the prior year. This incremental increase of $3.2 million resulted from:

- Operating Income declining by $2.3 million primarily due to reduced cargo tonnage and fewer day cruise passengers.

- Non-Operating Expenses decreasing by $314 thousand in FY 2008. This was the result of decreases in Interest Expense and Asset Disposals/Transfers being partially offset by lower Interest Income.

- Capital contributions – grants were $5.2 million higher in FY 2008 as a result of grant reimbursements for the Southgate Cargo Facility.

The Port is required by the terms of the Bond Issues to generate sufficient Net Revenues so as to maintain a minimum ratio of 110% of the debt service requirement. The debt service requirement is defined as the greater of either the debt payment requirement of the current year or of highest debt payment requirement of a future year. In FY 2008 the Port failed to meet the debt service requirement. The Port has recently raised tariff rates to increase revenue, implemented staff reductions and brought selected services in-house to reduce operating costs and initiated an aggressive marketing campaign to both solicited new and grow current business.

PORT OF PALM BEACH DISTRICT
Statement of Net Assets
September 30, 2008

ASSETS

	2008
Current assets:	
Cash and cash equivalents	$ 1,859,523
Investments	4,000,000
Accounts receivable (net of allowance for uncollectables of $225,000)	844,591
Due from other governments	206,304
Interest receivable	379
Prepaid items	637,824
Restricted assets:	
Cash and cash equivalents	10,118,678
Grants receivable	1,874,882
Accounts receivable	241,027
Prepaid items	81,019
Total current assets	**19,864,227**
Noncurrent assets:	
Deferred charges	7,719
Unamortized bond issue costs	843,221
Restricted deferred charges	219,575
Total other noncurrent assets	1,070,515
Capital assets:	
Land and land rights	26,866,009
Buildings and improvements	60,104,326
Slips and improvements	22,128,628
Other improvements	32,921,841
Wharf and loading ramps	7,798,154
Machinery and equipment	2,334,019
Autos and trucks	498,233
Furniture and fixtures	150,004
Construction in progress	884,816
Less accumulated depreciation	(38,222,467)
Total capital assets (net of accumulated depreciation)	115,463,563
Total noncurrent assets	**116,534,078**
Total assets	**$ 136,398,305**

LIABILITIES

	2008
Current liabilities	
Accounts payable and accrued expenses	$ 925,186
Deferred revenue	269,713
Compensated absences payable	188,776
Payable from restricted assets:	
Accounts payable	67,061
Contracts payable	273,861
Accrued interest payable	163,909
Current portion of long-term debt	2,224,258
Total current liabilities	**4,112,764**
Noncurrent liabilities	
Security deposits	2,300
Compensated absences payable	136,700
Restricted accreted interest payable	1,934,948
Revenue bonds payable (less unamortized bond discount and deferred loss on refunding)	45,927,521
Less: current portion	(2,224,258)
Total noncurrent liabilities	**45,777,211**
Total liabilities	**49,889,975**

NET ASSETS

Invested in capital assets, net of related debt	$ 70,379,263
Restricted for debt service	2,752,324
Restricted for renewal and replacement	1,242,930
Restricted for business development	527,256
Restricted for capital improvements	4,529,331
Unrestricted	7,077,226
Total net assets	**$ 86,508,330**

See notes to the financial statements

PORT OF PALM BEACH DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended September 30, 2008

	2008
Operating revenue	
Port facilities	**$ 10,959,147**
Operating expenses	
General expenses	1,917,359
Engineering and maintenance	2,530,948
Security	1,862,794
Administration	1,219,497
Business development	637,655
Operations	628,559
Amortization	97,034
Depreciation	3,660,573
Total operating expenses	**12,554,419**
Operating loss	**(1,595,272)**
Non-operating revenues (expenses)	
Investment earnings	555,819
Grant revenue	836,505
Loss on disposition of assets	(2,012)
Radiation portal monitor transfers	(453,559)
Interest expense	(2,473,680)
Total nonoperating revenue (expenses)	**(1,536,927)**
Income (loss) before contributions	**(3,132,199)**
Capital contributions - grants	**9,090,868**
Change in net assets	**5,958,669**
Total net assets - beginning, as restated	**80,549,661**
Total net assets - ending	**$ 86,508,330**

See notes to the financial statements

PORT OF PALM BEACH
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2008

Cash flows from operating activities:	
Receipts from customers and users	$ 11,119,552
Payments to suppliers for goods and services	(5,271,087)
Payments to or on behalf of employees	(3,694,721)
Net cash provided by operating activities	**2,153,744**
Cash flows from non-capital financing activities	
Security deposits received	(25,000)
Grant revenues received	967,498
Radiation portal monitors purchases	(453,559)
Net cash provided by non-capital financing activities	**488,939**
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(15,814,498)
Interest paid on debt	(2,045,185)
Principal paid on revenue bond maturities	(2,151,029)
Capital grants received	11,126,229
Net cash provided (used) for capital and related financing activities	**(8,884,483)**
Cash flows from investing activities	
Net decrease in investments	5,000,000
Interest received on investments	569,528
Net cash provided (used) by investing activities	**5,569,528**
Net decrease in cash and cash equivalents	**(672,272)**
Cash and cash equivalents- beginning	**12,650,473**
Cash and cash equivalents - ending	**$ 11,978,201**

See notes to the financial statements

PORT OF PALM BEACH DISTRICT
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2008
(Continued)

CASH AND CASH EQUIVALENTS CLASSIFIED AS :	
Unrestricted assets	$ 1,859,523
Restricted assets	10,118,678
Total	$ 11,978,201

Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating loss	$ (1,595,272)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:	
Depreciation expense	3,660,573
Amortization of deferred lease costs	39,290
Amortization of debt issue costs	57,744
Bad debt expense	141,501
(Increase) decrease in assets	
Accounts receivable	56,491
Prepaid expenses	(260,464)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(4,539)
Deferred income	(37,587)
Compensated absences	96,007
Total adjustments	3,749,016
Net cash provided by operating activities	**$ 2,153,744**

See notes to the financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity and General Overview

The Port of Palm Beach District (Port) is an independent special taxing district established in 1915 under the provisions of Chapter 7081 of the Laws of Florida; and, as such, is a sub-division of the State of Florida. The Port's district is located in Palm Beach County, Florida and covers a land area of 971 square miles, or approximately half of the Palm Beach County land area. The Port derives the major portion of its operating revenues from wharfage, dockage, and rental income; it is a major nodal point for the shipment of bulk sugar, molasses, cement, utility fuels, water, produce and break-bulk items.

The Port is a "public enterprise fund" operated through an elected Board of five Port Commissioners and is administrated by an Executive Director.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Port of Palm Beach District, the primary government. There is no component unit included in these financial statements. A component unit would be included in the Port's reporting entity if its operational or financial relationship with the Port was significant.

Basis of Presentation

The Port adopted various GASB Statements as of October 1, 2001 which establishes standards for external financial reporting for all state and local governmental entities, requiring a Management's Discussion and Analysis section; statement of net assets; statement of revenues, expenses, and changes in net assets; and a statement of cash flows. They also require the classification of net assets into three components — invested in capital assets, net of related debt; restricted for specific purposes; and unrestricted.

Proprietary Fund Type

All activities of the Port are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Proprietary Fund Type (Continued)

A proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The Port's principal operating revenues are wharfage, dockage, and rental income. Program-specific grants (operating and capital) include revenues arising from voluntary non-exchange transactions that are restricted for use in a particular program, namely grants to repair and/or purchase, construct or renovate capital assets in association with a specific program. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus

The accounting and financial reporting treatment applied by the Port is determined by "measurement focus". Measurement focus is a term used to describe which transactions are recorded within the financial statements. The transactions of the Port are accounted for on a flow of economic resources measurement focus. With this measurement focus, financial activity is reported in essentially the same manner as in commercial accounting where net income and capital maintenance are measured. All assets and all liabilities (whether current or non-current) are included in the financial statements. Net assets (i.e., total assets net of total liabilities) are segregated into three categories on the statement of net assets:

Invested in capital assets net of related debt

This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Unrestricted

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Basis of accounting refers to the timing when transactions are recognized in the accounts and reported in the financial statements. The transactions of the Port are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred. Non-capital grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider are met.

The Port complies with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Port applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB) and earlier pronouncements from the Accounting Principles Board (APB Opinions), and the Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. In accordance with GASB Statement No. 20, Paragraph 7, the Port has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Deposits and Investments

In the statement of cash flows for proprietary funds, cash is defined as currency on hand and demand deposits with banks or other financial institutions. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty. Cash equivalents are short-term (i.e. original maturity is three months or less), highly liquid investments that are readily convertible to known amounts of cash and are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rate. Investments that mature within one year of acquisition are stated at cost or amortized cost. Investments with the remaining maturity of more than one year at the time of purchase are carried at fair value. The fair value of investments has been determined through the depositories' pricing service as established by general industry practices. Any realized gains and losses in fair value are reported in the operations of the current period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

In accordance with the 1999, 2002, 2005 and 2007 Revenue Bond covenants and resolutions of the Board of Commissioners, certain resources (consisting of cash and investments) are to be used only for specified purposes**.** When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources as they are needed. Certain equity balances are to be restricted as follows:

Capital improvements - net assets reserved for capital improvements represent the excess of restricted assets required for capital improvements over the related liabilities payable from restricted assets.

Renewal and replacement - net assets reserved for renewal and replacement represent the excess of restricted assets required for renewal or replacement of capital assets over the related liabilities payable from restricted assets.

Business development - net assets reserved to pay the expenses of promoting trade and commerce represent the excess of restricted assets required to pay the expenses of promoting trade and commerce over the related liabilities payable from restricted assets.

Bond sinking funds - net assets reserved for revenue bond debt service represent the excess of restricted assets required for debt service under bond covenants over the related liabilities payable from restricted assets.

Deferred Compensation Plan Assets

Employees of the Port may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the Port. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. A third party administers the deferred compensation plan.

In 1999, the Port Adopted GASB-32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* The Port modified its Deferred Compensation Plan to conform with the changes in the Internal Revenue Code brought about by the Small Business Job Protection Act of 1996 (the "Act"). The Act requires that eligible deferred

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Compensation Plan Assets (Continued)

compensation plans established and maintained by governmental employers be amended to provide that all assets of the plan be held in trust, or under one or more appropriate annuity contracts or custodial accounts, for the exclusive benefit of plan participants and their beneficiaries. As a result of this change, these plan assets are no longer property of the Port and will no longer be subject to the claims of the Port's general creditors.

Because the Port has little administrative involvement and does not perform the investing function for funds in the Plan, the Port's activities do not meet the criteria for inclusion in the fiduciary funds of a government.

Accounts Receivable

The Port records accounts receivable at estimated net realizable value. Accordingly, accounts receivable at September 30, 2008 are shown net of allowances for doubtful accounts. The Port maintains an allowance for uncollectible accounts at a level which management believes is sufficient to cover potential credit losses.

Property and Equipment

Property and equipment are carried at cost, or estimated fair value for assets contributed, less accumulated depreciation. The Port defines capital assets as assets with an initial individual cost of more than $500 and an estimated useful life in excess of two years.

Costs for maintenance, repairs and minor renewals and betterments are expensed as incurred. Major renewals and betterments are treated as property additions. When property is disposed, the cost and related accumulated depreciation are eliminated from the accounts and any gain or loss on the disposition is reflected in the Statement of Revenue, Expenses and Changes in Fund Net Assets. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation is computed on a straight-line basis and the useful lives range from five to sixty years on the buildings and improvements and from three to twelve years on machinery, equipment and furniture. Land and related land rights are not depreciated.

Revenues

Wharfage, rentals, dockage, parking, switching and other revenues for the use of, and privileges at the Port's facilities are reported as operating revenues, and amounts received from operating grants, investment earnings, gains resulting from disposition of assets and any revenue item not earned in the ordinary course of business are reported as non-operating revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Costs

Unamortized Bond Discount is amortized to non-operations through interest expense using the straight-line method over the life of the bonds. Losses incurred on proprietary fund debt refunding are also amortized, using the straight line method, and are reported as a component of interest expense. The amortization period of deferred losses on refunding of debt is the remaining life of the old debt or the life of the new debt, whichever is shorter. The unamortized bond discount and deferred loss on refunding of debt amount are reported as a component of the debt liability and are deducted from long-term bonds payable. Debt issuance costs are reported on the statement of net assets as deferred charges and amortized through operations.

Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the Port accrues a liability for compensated absences, as well as certain other salary costs associated with the payment of compensated absences. Vacation and sick leave are accrued as a liability as the benefits are earned by the employees.

Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use and recoverability of inventories, and useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Budgetary Accounting

The Annual Operating and Capital Budget is prepared and controlled on a departmental level. The Executive Director is authorized to transfer budgeted amounts within the departments. Budget amendments which require a change in total appropriations of any department are approved by the Port’s Board. The budgets are prepared on the accrual basis of accounting, which is consistent with the basis utilized for proprietary funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Determination of Operating vs. Non-Operating Revenues and Expenses

The Port derives the largest portion of its operating revenues from vessel traffic and cargo moving through the port and across its docks. Additionally, the Port is considered a landlord port in that it leases its properties to various cargo operations in return for rental payments and financial guarantees from those operators.

The expense associated with operating revenue generation is recorded in eight major categories: general expenses, engineering and maintenance, security, administration, business development, operations, depreciation, and amortization.

The Port receives certain other revenue such as interest income and grant revenue that it categorizes as non-operating revenues. These types of revenue are not a direct result of vessel traffic or cargo movement. Additionally, non-operating expenses include, among others, the interest portion of debt service payments, amortization of deferred loss on refundings and amortization of bond discounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2008, the Port's book balance for deposits in "Qualified Public Depositories" was $11,094,680 and the related bank balance totaled $11,886,829. The Port also had $1,550 in petty cash for a total carrying amount of $11,096,230. The Port's deposits include certificates of deposits in the amount of $4,000,000, with a weighted average maturity of 58 days. The certificates of deposit are reported as unrestricted investments in the statement of net assets because the certificates of deposits may not be withdrawn at any time without prior notice or penalty.

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or other banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Port's deposits at year end are considered insured for custodial credit risk purposes.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments

The Port has adopted an investment policy in accordance Florida Statutes 218.415 (17). The policy authorizes investments in direct obligations of the U.S. Treasury, interest-bearing time deposits or savings accounts in qualified public depositories, the Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Florida Statutes 163.01, and Securities and Exchange Commission registered money market funds with the highest credit rating from a nationally recognized rating agency.

The Port is authorized to invest Revenue, Renewal and Replacement and Port Development account deposits with institutions participating in the State's security program under Chapter 280 of the Florida Statutes, and obligations of, or guaranteed by, the United States Government.

The Port is authorized to invest the bond proceeds and the sinking fund account deposits in the following: (1) U.S. obligations; (2) obligations fully and unconditionally secured by the full faith and credit of the United States of America; (3) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by the non-full faith and credit of U.S. governmental agencies; (4) mortgaged-backed securities and senior debt obligations; (5) certificates of deposit secured by collateral in (1) or (2) above; (6) certificates of deposit, savings accounts, deposit account or money market deposits fully insured by FDIC; (7) commercial paper rated in the single highest classification; (8) money market funds registered under the Federal Investment Company Act; (9) pre-refunded municipal bonds rated in the single highest classification; (10) investment agreements; (11) bonds or notes issued by any state or municipality rated in the two highest long-term categories; (12) units of participation in the Local Government Surplus Funds Trust Fund; (13) federal funds or bankers acceptances; (14) repurchase agreements; (15) other forms of investments approved in writing by the Credit Facility Issuer.

The State Board of Administration is part of the Local Governments Surplus Funds Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Governments Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2008, the Port held the following investments, which are reported as cash and cash equivalents in the Statement of Net Assets:

	Credit Rating (1)	Fair Value	Weighted Average Maturity
Money market mutual funds	Aaa & AAAm	$ 4,881,971	N/A

(1) Moody's and Standard & Poor's

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Port does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit risk – Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Port's investment policies limit its investments to high quality investments to control credit risk.

Concentrations of credit risk – Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single user. The Port places no limit on the amount they may invest in any one issuer.

Custodial credit risk – For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2008, the certificates of deposits were insured or collateralized and the Port's money market mutual funds were not subject to custodial credit risk.

A reconciliation of deposit and investments as shown on the statement of net assets for the Port is as follows:

By Category:	
Deposits	$ 11,094,680
Petty cash	1,550
Investments	4,881,971
Total deposits and investments	$15,978,201

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Presented in the statement of net assets	
Cash and cash equivalents	$ 1,859,523
Restricted cash and cash equivalents	10,118,678
Investments	4,000,000
Total statements of net assets	$15,978,201

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended September 30, 2008, is as follows:

	Beginning Balance As Restated (1)	Increases	Decreases	September 30, 2008
Capital assets, not being depreciated:				
Land	$ 26,866,009	$	$	$ 26,866,009
Construction in progress	6,236,055	12,836,846	(18,188,085)	884,816
Total capital assets, not being depreciated	33,102,064	12,836,846	(18,188,085)	27,750,825
Capital assets, being depreciated:				
Building and improvements	46,669,637	13,434,689		60,104,326
Slips and improvements	22,098,778	29,850		22,128,628
Other improvements	28,323,150	4,598,691		32,921,841
Wharf and loading ramps	7,798,154			7,798,154
Machinery and equipment	1,948,150	392,219	(6,350)	2,334,019
Autos and trucks	480,258	53,483	(35,508)	498,233
Furniture and fixtures	144,825	5,179		150,004
Total capital assets, being depreciated:	107,462,952	18,514,111	(41,858)	125,935,205
Less: accumulated depreciation	(34,601,641)	(3,660,572)	39,746	(38,222,467)
Total capital assets, being depreciated, net	72,861,311	14,853,539	(2,112)	87,712,738
Total capital assets, net	$105,963,375	$27,690,385	$ (18,190,197)	$115,463,563

(1) See Note 12

NOTE 3 – PROPERTY AND EQUIPMENT (Continued)

The total interest costs incurred by the Port for fiscal year ended September 30, 2008, was $2,443,013 of which $154,242 has been capitalized.

Construction Commitments

Contracts awarded but not yet completed were as follows:

Project Description	Estimated Costs
Slip #2 Bollards & Bottom Filling	$ 123,338
Slip #3 Improvement	102,205
Cargo Yard A	88,123
South Gate Complex	46,593
Milling and Paving	7,370
Bollard, Rail & Manhole Repair	3,252
	$ 370,881

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Revenue bonds payable	$49,831,430	$	$(2,151,029)	$47,680,401	$2,224,258
Less deferred amounts:					
For issuance discounts	(743,107)		46,331	(696,776)	
On refunding	(1,194,681)		138,577	(1,056,104)	
Total bonds payable	47,893,642		(1,966,121)	45,927,521	2,224,258
Compensated absences	229,469	343,550	(247,543)	325,476	188,776
Accreted interest payable	1,547,559	387,389		1,934,948	
Total long-term liabilities	$49,670,670	$730,939	$(2,213,664)	$48,187,945	$2,413,034

Revenue Bonds

The Port is authorized to issue Revenue Bonds for the purpose of constructing and financing modern Port facilities. Such revenue bonds are payable from and secured by a first lien upon and a pledge of the gross revenues derived from the operation of the Port facilities on parity with the parity bonds and any pari passu additional bonds hereafter issued. The pledge of the gross

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Bonds (Continued)

revenues derived from the operation of the Port facilities will not constitute a lien upon the Port facilities, or any part thereof, or any other property of the Port. The revenue bonds will not constitute an indebtedness of the Port, payable by general or special taxation, and the holders of the bonds shall not have the right to require or compel the exercise of the ad valorem taxing power of the Port, or the taxation of real estate of the Port for the payment of the principal of or interest on the bonds. Payment of the principal and interest on the bonds will be insured by a municipal or financial guaranty insurance policy issued by an insurer simultaneously with the issuance of the bonds.

The Revenue Bond indentures require that monthly deposits be made to restricted accounts for the payment of bond principal and interest, and that certain reserve accounts be maintained. The Bond indentures also require the Port to fix, establish, maintain and collect rates, fees, rents or other charges for the services and facilities of the Port which will be sufficient at all times to (a) pay the cost of maintaining, repairing and operating the Port property; (b) provide reserves for replacement of property and equipment; (c) provide for Business Development; and (d) pay debt service, sinking fund and reserve requirements, and additionally requires that rates be maintained and revised so that "Net Revenues less all Supplemental Revenues" are at least 110% of the maximum annual debt service requirement.

Revenue Improvement Bonds, Series 1999 A

In September 1999, the Port issued $25,195,000 of Revenue Improvement Bonds, Series 1999A with interest rates of 3.80%-5.5%. Interest on the Bonds will be treated as a preference item for purposes of computing the federal alternative minimum tax on individuals and corporations. The Bonds were issued for the purpose of providing all or a portion of the funds required to acquire and construct additions, extensions, and improvements to the Port Facilities; funding the Reserve Account; reimbursing the Port for certain expenditures previously made in connection with 1999 construction projects; defeasing the outstanding Revenue Refunding Bonds, Series 1977; and paying certain costs and expenses related to the issuance, including the cost of obtaining a bond insurance policy. Interest is payable semiannually on March 1 and September 1 and principal payments are due each September 1, and thereafter through September 1, 2024.

In connection with the issuance of the Series 1999A Bonds, the Port proposed certain amendments to the Resolution adopted by the Port on May 17, 1977 (Original Resolution). The 1999 Resolution amends and supplements the Original Resolution. Certain types of amendments to the Original Resolution cannot become effective unless the Port has obtained the consent of the holders of two-thirds of the principal amount of the bonds then outstanding. Purchasers of the Series 1999A Bonds represent more than two-thirds of the bonds outstanding and by their purchase have consented to the amendments. The amendments provide, among other things,

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Improvement Bonds, Series 1999 A (Continued)

(i) the ability to pay debt service on the bonds with supplemental revenues; (ii) a more liberalized list of permitted investments; (iii) the ability of the Port to take into account, in determining compliance with the rate covenant and additional bond provisions of the Original Resolution, certain sources of income to the Port which are not derived from the operation of the Port Facilities; and (iv) a more flexible and expanded mechanism by which the Port may sell, lease or otherwise dispose of certain Port property.

Debt service requirements to maturity are as follows at September 30, 2008:

	Principal	Interest	Total Debt Service
2009	$ 755,000	$ 986,649	$ 1,741,649
2010	795,000	948,899	1,743,899
2011	835,000	908,354	1,743,354
2012	880,000	865,560	1,745,560
2013	925,000	819,360	1,744,360
2014-2018	5,410,000	3,303,647	8,713,647
2019-2023	7,055,000	1,659,075	8,714,075
2024	1,650,000	90,750	1,740,750
	$ 18,305,000	$ 9,582,294	$ 27,887,294

Revenue Refunding and Improvement Bonds, Series 2002

On December 18, 2002, the Port issued $9,576,835 of Revenue Refunding and Improvement Bonds, Series 2002. The issue includes $4,535,000 of current interest bonds, with interest rates of 3.00% to 4.00%, and $5,041,835 of capital appreciation bonds, with approximate yield to maturity of 5.40% to 5.51%. Interest on the current interest bonds is paid semiannually on March 1 and September 1. Interest on the capital appreciation bonds bear interest only at maturity, which maturity amount includes both the original principal amount and interest compounded semi-annually on each March 1 and September 1, commencing March 1, 2003 maturing September 1, 2022 through September 1, 2026. Principal payments on the current interest are due each September 1 through 2012 and the capital appreciation bonds each September 1 beginning 2022 through 2026. The proceeds were used to refund the outstanding Port Revenue Refunding Bonds, Series 1992 on a current refunding basis, pay and defease a portion of the Revenue Improvement Bonds, Series 1996A on a advance refunding basis, to finance all or a portion of the costs of additions, extensions, improvements to the Port Facilities of the Port designated as the 2002 project, and to pay the costs of issuing the 2002 Bonds,

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Refunding and Improvement Bonds, Series 2002 (Continued)

including the cost of obtaining a bond insurance policy. The 2002 bonds are not subject to redemption prior to their stated maturity dates. The remaining current interest bonds and all the capital appreciation bonds are tax exempt. The tax-exempt bonds are not subject to alternative minimum tax.

Debt service requirements to maturity are as follows at September 30, 2008:

	Principal	Interest	Total Debt Service
2009	$ 465,000	$ 73,080	$ 538,080
2010	480,000	57,270	537,270
2011	490,000	39,510	529,510
2012	510,000	20,400	530,400
2013			
2014-2018			
2019-2023	1,767,466	3,442,534	5,210,000
2024-2026	3,274,369	8,030,631	11,305,000
	$ 6,986,835	$ 11,663,425	$ 18,650,260

Revenue Refunding Bonds, Series 2005

On July 1, 2005 the Port issued $13,090,044 of Revenue Refunding Bonds, Series 2005, with interest rates of 3.25% to 4.125%. The bonds were used to pay and defease all of the outstanding Revenue Improvement Bonds, Series 1996A; and pay the costs of issuing the 2005 Bonds, including the cost of obtaining a bond insurance policy. The tax-exempt bonds are not subject to alternative minimum tax. Interest on the current interest bonds is paid semiannually on March 1 and September 1. Interest on the capital appreciation bonds bear interest only at maturity which maturity amount include both the original principal amount and interest compounded semi-annually on each March 1 and September 1, commencing September 1, 2005 maturing September 1, 2013. Principal payments on the current interest are due each September 1 through 2021, commencing on September 1, 2009, and the capital appreciation bonds which are due September 1, 2013.

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Refunding Bonds, Series 2005 (Continued)

Debt service requirements to maturity are as follows at September 30, 2008:

	Principal	Interest	Total Debt Service
2009	$ 235,000	$ 495,006	$ 730,006
2010	255,000	487,075	742,075
2011	260,000	478,150	738,150
2012	275,000	468,725	743,725
2013	590,044	683,369	1,273,413
2014-2018	4,425,000	1,952,065	6,377,065
2019-2021	6,960,000	573,039	7,533,039
	$13,000,044	$5,137,429	$18,137,473

Revenue Refunding Bonds, Series 2007

On September 12, 2007 the Port issued $10,139,551 of Revenue Refunding Bonds, Series 2007, with an interest rate of 4.39025%. The bonds were used to refinance all of the outstanding Revenue Improvement Bonds, Series 1996B; and pay the costs of issuing the 2007 Bonds, including the cost of obtaining a bond insurance policy. The 1996B Bonds were retired on October 15, 2007. The tax-exempt bonds are subject to alternative minimum tax. Principal and interest are payable semiannually on March 1 and September 1, with interest payments beginning March 1, 2008 and principal payments beginning on September 1, 2008. The bonds mature on September 1, 2018.

Debt service requirements to maturity are as follows at September 30, 2008:

	Principal	Interest	Total Debt Service
2009	$ 769,258	$ 412,156	$ 1,181,414
2010	799,338	378,386	1,177,724
2011	838,119	343,295	1,181,414
2012	871,172	306,501	1,177,673
2013	912,667	268,257	1,180,924
2014-2018	5,197,968	704,270	5,902,238
	$9,388,522	$2,412,865	$11,801,387

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Bond Compliance

In accordance with the 1999, 2002, 2005 and 2007 Revenue Bond rate covenants and resolutions of the Board of Commissioners, the Port must fix, establish, maintain and collect rates, fees, rents or other charges for the services and facilities of, the Port, and revise the same from time to time whenever necessary, as will always provide in each year, Net Revenues, which shall be adequate to pay at least 125% of the maximum annual debt service requirements for all the Port's Revenue Bonds; and that such Net Revenues shall be sufficient to make all of the payments required by the terms of the Revenue Bonds, and that such rates, fees, rentals or other charges shall not be so reduced as to be insufficient for such purposes. Notwithstanding the foregoing, Net Revenues, less all Supplemental Revenues, shall always be adequate to pay, in each year, at least 110% of the maximum annual debt service requirements for all the Port's Revenue Bonds. The Port's bond counsel is of the opinion that 125% test would not apply if the Port had no Supplemental Revenues. Net revenues are gross revenues, after deduction only of operating expenses plus supplemental revenues. Supplemental Revenues are all revenues received by the Port pursuant to Section 320.20(3) Florida Statutes, as amended and supplemented and any other moneys received or accrued to the Port including but not limited to recurring grants (either federal or state) or State sharing revenues. For the fiscal year ended September 30, 2008, the Port had no supplemental revenues. Therefore, the Port's Net Revenues for the current fiscal year were deficient by approximately $2,164,000 in meeting the 110% rate covenant.

Defeased Debt

Pursuant to the GASB Statement No. 7, *Advanced Refunding Resulting in Defeasance of Debt*, the Port does not report defeased/refunded bond funds on its statement of net assets.

The total remaining principal balance due on bond issues defeased is as follows as of September 30, 2008:

Revenue Refunding Bonds, Series 1996A	$ 1,885,000

NOTE 5 – CONTRACTS AND CONTINGENCIES

Contingencies

The Port is involved in various litigations and claims arising in the course of operations. In the opinion of the Port's management, the ultimate resolution of these claims would not be material to the financial position of the Port. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

NOTE 5 – CONTRACTS AND CONTINGENCIES (Continued)

Collective Bargaining Agreement

The Port renewed its collective bargaining agreement with the National Association of Government Employees, which was effective as of October 1, 2006. The agreement is for a three-year term and is automatically renewed for an additional year thereafter unless either party gives notice of termination. The agreement defines both employee and management rights, including: paid holidays, personal time off (PTO), work hours and overtime, pension and health insurance benefits. The union is prohibited by law from going on strike and has also agreed not to strike, but to settle any grievances through arbitration or the courts.

NOTE 6 – FEMA GRANTS

As a result of Hurricane Wilma, which hit the Port on October 24, 2005, and Hurricane Jeanne, which hit the Port on September 25, 2004, the Port incurred substantial costs to repair and replace capital assets and clean up debris from these hurricanes. A significant portion of these costs were eligible for reimbursement from the state via pass-through funds from the Federal Emergency Management Agency (FEMA). As of September 30, 2008, the Port recorded $54,860 in FEMA operating grants and $731,112 in FEMA capital grants. The projects have all been completed and are awaiting closeout reviews and/or final inspections by FEMA as of September 30, 2008, which are expected to be completed during the 2008/09 fiscal year. The Port recorded a contingent liability of $406,965 for FEMA reimbursements received that exceeded actual costs and did not include insurance recoveries that is included in accounts payable and accrued expense under the current liabilities section of the statement of net assets.

NOTE 7 - FLORIDA PORTS FINANCING COMMISSION

On July 17, 1996, the Florida Ports Financing Commission (the “Commission”) was created pursuant to Section 3 20.20(3) and Chapter 163, Part I, Florida Statutes through an Interlocal Agreement among certain participating ports within the State of Florida. The Commission’s purpose is to provide a cost-effective means of financing various capital projects for the State of Florida’s ports by issuing bonds and transferring the proceeds thereof to the individual ports. The Ports Commission has provided funding from two different bond issuances. The issuance of $222,320,000 Florida Ports Financing Commission Revenue Bonds (State Transportation Trust Fund), Series 1996 (the “Bonds”) issued on December 19, 1996 to provide funds to finance the costs of acquiring and constructing capital projects undertaken by 14 ports located in the State of Florida (the “Ports”), including the Port of Palm Beach District (the “Port”); and subsequent issuance of $153,115,000 representing Revenue Bonds (State Transportation Trust Fund - Intermodal Program), Series 1999. The Commission loaned the proceeds of the bonds (the “Loans”) to the Ports pursuant to separate loan agreements (the “Loan Agreements”) entered into between each of the Ports individually and the Commission.

NOTE 7 - FLORIDA PORTS FINANCING COMMISSION(Continued)

The Loan Agreement entered into by the Port provides that the Port will repay its loan solely from moneys due from the State Transportation Trust Fund. Pursuant to Section 320.20(3), Florida Statutes, $15,000,000 and $10,000,000, respectively, of the revenues received by the State of Florida motor vehicle registration fees is to be deposited annually in the State Transportation Trust Fund for funding Projects (the "State Moneys"). Basic payments under the Loan Agreement are payable solely from moneys on deposit in the State Transportation Trust Fund. The Department of Transportation and the Commission entered into two separate master agreements, one for each bond series, pursuant to which the Department of Transportation agrees to transfer the State Moneys annually into an escrow account held by the State Department of Insurance, Division of Treasury, on behalf of the Trustee which may be drawn by the Trustee in order to pay the debt service on the Bonds as the same becomes due. The Port has assigned all of its rights, title and interest to the moneys allocated to the Port from State Moneys to the Trustee on behalf of the Commission, to pay its portion of the debt service on the bonds.

In addition to the basic payments, the Port agreed to pay on demand to the Commission or the Trustee Additional Payments constituting: (a) its proportionate share of certain ongoing fees, costs and expenses related to the financing program; (b) all reasonable fees and expenses of the Commission and the administrator of the financing program; (c) its proportionate share of rebate obligations relating to the Bonds pursuant to Section 148(f) of the Internal Revenue Code of 1986; and (d) any unallowable costs required to be repaid by the borrower under the Loan Agreement (the "Additional Payments").

The Port has covenanted to appropriate in its annual budget from legally available non-ad valorem revenues of its Port facilities sufficient moneys to make such Additional Payments. Such covenant is applicable solely to the Additional Payments and does not cover the basic payments.

The Bonds do not create nor constitute an obligation or debt of the State of Florida, any political subdivision thereof or any public corporation, port or governmental agency existing under the laws of the State of Florida. The Bonds do not constitute the giving, pledging or loan of the faith and credit of the State of Florida or any political subdivision thereof or any public corporation, port or governmental agency existing under the laws of the State of Florida. The Bonds are payable solely from State Moneys as the basic payments of the borrowers.

The Port has not recorded a liability for the bonds since it does not have any obligation except for moneys due from the State Transportation Trust Fund.

The financing program of the Commission described above is in substance a grant program, inasmuch as all debt service payments on the Bonds are payable solely from moneys in the State Transportation Trust Fund.

PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 7 - FLORIDA PORTS FINANCING COMMISSION(Continued)

The program was structured with Loan Agreements in order to satisfy certain legal requirements. Bondholders have no recourse to the borrowers, including the Port, for payment of the principal and interest on the Bonds.

NOTE 8 - LEASING ACTIVITIES

The Port has entered into operating leases with tenants for the use of space at various Port facilities including vacant land, buildings, terminals, offices and commercial space for periods up to 40 years. Generally, the leases are long-term leases that provide for minimum annual rentals and/or wharfage guarantees. (See also Note 10) Most leases contain a provision for periodic rental increases based on the Consumer Price Index. It is not reasonably practicable to segregate the value of assets associated with producing minimum rental revenue from the value of assets associated with the entire facility. Total revenues from long-term leases for the period ended September 30, 2008 was $3,471,814.

Future minimum rentals are predicated upon the ability of the lessees to meet their commitments. Minimum future rentals under non-cancelable operating leases having an initial term in excess of one year as of September 30 are as follows:

2009	$ 3,637,982
2010	3,655,655
2011	3,360,361
2012	3,244,817
2013	2,465,812
Later years	10,005,963
Total minimum future rentals	$ 26,370,590

NOTE 9 – EMPLOYEE RETIREMENT PLAN

Plan Description

All full-time employees of the Port are members in the Florida Retirement System (FRS), a cost-sharing, multiple-employer retirement plan. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. Membership in the FRS is required for all full-time and part-time employees working in regularly established positions for state agencies, county governments, district school boards, state universities, and state community colleges; or cities, independent special districts, metropolitan planning districts, and public charter schools that make an irrevocable election to participate. Certain members,

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Plan Description (Continued)

including elected officials and local government senior managers, may elect to not participate in the system. Members of the Elected Officers' Class may elect to participate in the Senior Management Service Class in lieu of the Elected Officers' Class or to withdraw from the FRS altogether. The FRS is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement. The FRS was created December 1, 1970, with the consolidation of the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension. In 1972, the Judicial Retirement System was consolidated with the FRS. In 2007, the Institute of Food and Agriculture Sciences was consolidated under the Regular Class of the FRS as a closed group.

The FRS was created to provide a program offering retirement, disability, and survivor benefits for participating public employees. Social security coverage is also required for all members. Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment Plan became available to FRS members. A post-employment health insurance subsidy is also provided to eligible employees through the Retiree Health Insurance Subsidy Program.

Defined Benefit Plan

The FRS provides for vesting of benefits after six years of creditable service. Members receive one month of service credit for each month in which any salary is reported for work performed up to their work period during the plan year. Members may also purchase additional credit to increase their retirement benefits under FRS. Credit may be purchased for past service, prior service (including refunded service credit), certain military service (up to four years), approved leaves of absence (up to two years), out-of-state public service (including federal service), non-FRS public service and non-public service in certain schools or colleges in Florida (up to five years total, including both in-state and out-of- state service), and in some cases credit for periods of disability retirement. To purchase this service credit, members must meet certain requirements. Only the purchase of past service and prior service may be included in the creditable years of service needed to vest. All other types of service credit purchases become creditable service only after a member is vested based on their other service. Members become eligible for normal retirement or unreduced retirement based on their age and / or service when they are vested with six years of service and age 62, or the age after 62 that the member becomes vested; or thirty years of service, regardless of age. Early retirement or reduced retirement may be taken after a member has vested and is within 20 years of their normal retirement age; however there is a 5% benefit reduction for each year remaining from a member's retirement age to their normal retirement age. The benefits received by retirees and beneficiaries are increased by a 3% cost-of-living adjustment each July based on their June benefit amount.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Defined Benefit Plan (Continued)

Service retirement benefits are computed on the basis of age and/or years of service, average final compensation (AFC), and service credit. Credit for each year of service is expressed as a percentage of AFC (the average of the 5 highest fiscal years' earnings). The total percentage value of the benefit received is determined calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned. The FRS also provides disability and survivor benefits.

The Port has no responsibility to the System other than to make periodic payments required by State Statutes.

The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information and a pension plan and HIS valuation summary with required supplementary information. These reports may be obtained by writing to the State of Florida, Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000; or e-mail Research & Education at rep@dms.Myflorida.com, or calling toll free at 877-377-1737.

Effective July 1, 1998, the Florida Legislature established a Deferred Retirement Option Program ("DROP"). The DROP is available under the FRS when the member first reaches eligibility for normal retirement. DROP allows a member to retire while continuing employment for up to 60 months. While in DROP, the member's retirement benefits accumulate in the FRS Trust Fund (increased by a cost-of-living adjustment each July) and earn monthly interest equivalent to an annual rate of 6.5%. Upon termination, the DROP account is paid out as a lump sum payment, a rollover, or a combination partial lump sum payment and rollover, and monthly benefits are paid to the member in the amount as calculated upon entry into DROP, plus cost-of-living adjustments for intervening years.

Defined Contribution Plan

Some of the Port's employees elected to participate in the FRS's Investment Plan instead of the Retirement Plan. The FRS Investment Plan is a defined contribution retirement plan qualified under section 401(a) of the Internal Revenue Code. The employer pays all contributions which are made to each participant's account under the plan. These employer contributions are a percentage of salary, set by state law, based on retirement membership class, which is identical to the FRS defined contribution plan. The employer's contributions are deposited in an account in the employee's name. Benefits are based on the total value of the employee's account at distribution. This amount is based on employer contributions plus interest and earnings on those contributions, less fees and plan charges. Benefits are fully vested after completing one year of service, and include all employer contributions and earnings on those contributions. There is no

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Defined Contribution Plan (Continued)

"normal" retirement age. When an employee's employment ends, the employee can take the value of their account with them, regardless of their age, roll the balance over to another employer's retirement plan (if permitted by that plan) or IRA (Individual Retirement Account), or leave the value of the account in the FRS Investment Plan until a later date when the employee may take a distribution.

Funding Policy

The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions. Employer contribution rates are established by state law as a level percentage of payroll. Employer contribution rates are determined using the entry-age normal actuarial cost method. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. If an unfunded actuarial liability reemerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

Members of the FRS are not required to make employee contributions to establish service credit for work performed in a regularly established position; employers pay all required contributions. Effective July 1, 2002, the Florida Legislature established a uniform contribution rate system for the FRS, covering both the FRS Pension Plan and the FRS Investment Plan.

Any member who terminates employment with an FRS employer may receive a refund of any retirement contributions personally made to the system (and lose the associated retirement credit), or may leave these personal contributions in the system and keep all creditable service earned through the date of termination.

The Port's Executive Director qualifies for the Senior Management Service Class (SMSC) membership and all other employees qualify for Regular Class membership.

Retiree Health Insurance Subsidy Program

Plan Description

The Retiree Health Insurance Subsidy Program (HIS) is a cost-sharing multiple-employer defined benefit plan. Benefit provisions are established under Chapter 112.363, Florida Statutes,

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Retiree Health Insurance Subsidy Program (Continued)

Plan Description (Continued)

which may be amended by the Florida Legislature. The HIS benefit is a monthly supplemental payment that Florida Retirement System retirees, eligible terminated Investment Plan members, and other state-administered retirement system retirees may be eligible to receive if they have health insurance coverage, which includes Medicare, TriCare, and insurance coverage provided through the Cover Florida Health Care Access Program. Payment of this benefit is not automatic, it must be applied for and the application approved before payment begins.

The amount of the monthly payment is calculated by multiplying the member's total years of creditable service at retirement (up to a maximum of 30 years) by $5. The minimum monthly HIS payment is $30 and the maximum monthly payment is $150. The HIS payment is included in the same payment as the retiree's monthly retirement benefit if a defined benefit plan retiree.

Funding Policy

The State's current funding policy for the HIS is pay-as-you-go and provides for monthly employer contributions currently set as the legislatively determined rate of 1.11% of annual covered payroll. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. The GASB annual required contribution (ARC) calculated by the consulting actuary in the July 1, 2008 actuarial valuation for the fiscal year ending June 30, 2010 is 1.28% of active payroll (including DROP payroll). The State's funding policy requires a contribution rate that is different than the GASB required ARC, which is an accounting disclosure. To the extent the contribution rate required to fund the HIS Program is different than the computed ARC, adjustments in the Net Pension Obligation (NPO) will occur from year to year.

The rates as a percentage of covered payroll at September 30, 2008 are as follows:

Elected Officials	16.53%
Senior Management Service Class	13.12%
Regular Class	9.85%
DROP	10.91%

The contribution requirements of the Port are established and may be amended by the Florida Legislature. The Port's contributions to the FRS defined benefit plan for the years ending September 30, 2006, 2007 and 2008 were $190,442, $213,678 and $211,957, respectively, which were equal to the required contributions. The Port's contribution to the FRS defined contribution plan for the year ended September 30, 2008 was $60,174, which was equal to the required contributions.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Retiree Health Insurance Subsidy Program (Continued)

Plan Description (Continued)

State law requires that actuarial valuations of all public retirement systems be performed annually. The last such evaluation was performed as of July 1, 2008.

Annually, the System publishes an unaudited report, which provides schedules of funding progress, employer contributions, historical trends and notes to required supplementary information. The most recent available report is for the plan year ended June 30, 2008.

Pursuant to Florida Statute 121.055 and 60S-1.0057, any member of the Florida Retirement System or an existing system who is eligible for membership in the Senior Management Service Class may elect to participate in the Senior Management Service Optional Annuity Program. The Executive Director has not elected to participate.

NOTE 10 - MAJOR CUSTOMERS

During fiscal 2008, the Port had billings from major customers, each providing more than 10% of the total Port facilities' revenues. Port facilities' revenues from each of these customers were as follows for the year ended September 30, 2008:

Tropical Shipping USA, LLC / Birdsall, Inc.	$ 4,359,160
ITG Vegas, Inc. (dba Palm Beach Princess)	$ 1,214,431

NOTE 11 - RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port manages the exposure to these risks through the purchase of commercial insurance with high limits of coverage. The Port has not significantly reduced insurance coverage from the prior year nor did the amount of settlement exceed the insurance coverage for each of the past three fiscal years.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

In the financial statements for the year ended September 30, 2001, errors were made in accounting for the capitalization and depreciation of the Skypass Bridge and land transfers. The errors had no effect on the change in net assets for the years ended September 30, 2008. The land transferred and net assets for the year ended September 30, 2007 were understated by $2,343,792 and the net effect of the Skypass Bridge, accumulated depreciation and net assets for the year ended September 30, 2007 was overstated by $18,417,794. These errors were corrected and had the following effect on the beginning net assets.

Beginning net assets, as previously reported	$96,623,663
Increase in land and decrease in Other improvements associated with transfer of Skypass Bridge	(16,074,002)
Beginning net assets, as corrected	$80,549,661

NOTE 13 – NEW PRONOUNCEMENTS

The Port is required to implement Governmental Accounting Standards Board Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ending September 30, 2009. Retirees of the Port pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees under age 65 because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average. This implied subsidy constitutes other postemployment benefits (OPEB) under GASB 45. The impact of the implementation of GASB 45 has not been determined.

NOTE 14 – SUBSEQUENT EVENT

Bond Insurers

The Revenue Refunding and Improvement Bonds, Series 2002 and Refunding Revenue Bonds, Series 2005 issued by the Port in prior years are insured by Syncora Guarantee, Inc. (formerly XL Capital Assurance). On January 29, 2009 and March 9, 2009, Standard and Poor's and Moody's Investors Service respectively, downgraded the Insurer Financial Strength rating of Syncora Guarantee, Inc. from B and Caa1 to CC & Ca, respectively.

The Revenue Improvement Bonds, Series 1999A issued by the Port in a prior year are insured by MBIA Insurance Corporation. On February 18, 2009, Standard and Poor's and Moody's Investors Service respectively, downgraded the Insurer Financial Strength rating of MBIA Insurance Corp., from AA and Baa1 to BBB+ and B3, respectively.

Subsequent to September 30, 2008, Fitch Ratings were withdrawn.

SUPPLEMENTAL INFORMATION

PORT OF PALM BEACH DISTRICT
Schedule of Investments
September 30, 2008 and 2007

	Yield	Purchase Date	Maturity Date	2008 Carrying Costs	2008 Accrued Interest	2007 Carrying Costs	2007 Accrued Interest
Restricted							
Certificate of Deposit				$	$	$ 4,000,000	$ 4,020
Certificate of Deposit						1,000,000	287
Total investments - restricted						5,000,000	4,307
Unrestricted							
Certificate of Deposit	3.41%	09/29/08	11/28/08	2,000,000	190	2,000,000	9,206
Certificate of Deposit	3.41%	09/29/08	11/28/08	2,000,000	189	2,000,000	575
Total investments - unrestricted				4,000,000	379	4,000,000	9,781
Total investments				**$ 4,000,000**	**$ 379**	**$ 9,000,000**	**$ 14,088**

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
$25,195,000 Revenue Refunding Bonds - Series 1999A
September 30, 2008

Year Ending September 30	Interest	Retirement of Bonds	Total
2009	$ 986,649	$ 755,000	$ 1,741,649
2010	948,899	795,000	1,743,899
2011	908,354	835,000	1,743,354
2012	865,560	880,000	1,745,560
2013	819,360	925,000	1,744,360
2014	770,335	970,000	1,740,335
2015	718,925	1,025,000	1,743,925
2016	663,831	1,080,000	1,743,831
2017	605,781	1,135,000	1,740,781
2018	544,775	1,200,000	1,744,775
2019	478,775	1,265,000	1,743,775
2020	409,200	1,335,000	1,744,200
2021	335,775	1,405,000	1,740,775
2022	258,500	1,485,000	1,743,500
2023	176,825	1,565,000	1,741,825
2024	90,750	1,650,000	1,740,750
	$ 9,582,294	$ 18,305,000	$ 27,887,294

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
$9,576,835 Revenue Refunding Bonds - Series 2002
September 30, 2008

Year Ending September 30	Interest	Retirement of Bonds	Total
2009	$ 73,080	$ 465,000	$ 538,080
2010	57,270	480,000	537,270
2011	39,510	490,000	529,510
2012	20,400	510,000	530,400
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022	1,693,276	911,724	2,605,000
2023	1,749,258	855,742	2,605,000
2024	1,799,169	805,831	2,605,000
2025	3,080,844	1,269,156	4,350,000
2026	3,150,618	1,199,382	4,350,000
	$ 11,663,425	$ 6,986,835	$ 18,650,260

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
$13,090,044 Revenue Refunding Bonds - Series 2005
September 30, 2008

Year Ending September 30	Interest	Retirement of Bonds	Total
2009	$ 495,006	$ 235,000	$ 730,006
2010	487,075	255,000	742,075
2011	478,150	260,000	738,150
2012	468,725	275,000	743,725
2013	683,369	590,044	1,273,413
2014	458,413	815,000	1,273,413
2015	425,813	850,000	1,275,813
2016	391,813	885,000	1,276,813
2017	356,413	920,000	1,276,413
2018	319,613	955,000	1,274,613
2019	281,413	2,230,000	2,511,413
2020	192,213	2,320,000	2,512,213
2021	99,413	2,410,000	2,509,413
	$ 5,137,429	$13,000,044	$18,137,473

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
$10,139,551 Revenue Refunding Bonds - Series 2007
September 30, 2008

Year Ending September 30	Interest	Retirement of Bonds	Total
2009	$ 412,156	$ 769,258	$ 1,181,414
2010	378,386	799,338	1,177,724
2011	343,295	838,119	1,181,414
2012	306,501	871,172	1,177,673
2013	268,257	912,667	1,180,924
2014	228,191	953,233	1,181,424
2015	186,344	992,830	1,179,174
2016	142,758	1,037,415	1,180,173
2017	97,216	1,080,987	1,178,203
2018	49,761	1,133,503	1,183,264
	$ 2,412,865	$ 9,388,522	$11,801,387

PORT OF PALM BEACH DISTRICT
Schedule of Port Facilities Revenues
For the Fiscal Years Ended
September 30, 2008 and 2007

	2008	2007
Wharfage	$ 2,849,117	$ 3,117,086
Rent	3,471,814	3,419,133
Dockage	1,179,018	1,652,796
Parking	193,691	599,402
Passenger wharfage	672,378	883,548
Storage	234,855	233,698
Water	145,322	160,524
Line handling	72,350	78,975
Miscellaneous	152,242	134,981
Switching	442,195	382,950
Licenses	78,000	68,000
Identification badging	164,782	286,963
Terminal operating fee	157,830	218,604
Security fee	651,655	764,598
Cargo terminal fee	411,588	470,749
Harbor master fee	54,110	67,165
Vessel bunkers	28,200	37,475
Total Port Facilities Revenue	**$ 10,959,147**	**$ 12,576,647**

PORT OF PALM BEACH DISTRICT
Schedule of Operating Expenses
For the Fiscal Years Ended
September 30, 2008 and 2007

	2008	2007
General expenses		
Insurance and surety bonds	$ 788,572	$ 765,578
Retirement	275,818	245,218
Group insurance	550,101	646,015
Other benefits	6,185	3,926
Audit and other accounting services	83,906	83,841
Bad debt expense	141,501	68,660
FPFC Administrative fee		24,000
Trustee fees	10,785	10,925
Ad valorem taxes		7,139
Consulting	35,313	35,890
Contingency	24,915	22,216
Miscellaneous	263	2,740
Total general expenses	**1,917,359**	**1,916,148**
Engineering and maintenance		
Salaries	600,280	463,153
Payroll taxes	48,359	33,255
Maintenance and repairs - buildings and grounds	400,884	420,108
Electricity	394,933	379,692
Water	271,690	285,936
Janitorial and trash removal	109,390	112,016
Maintenance and repairs - equipment	59,682	53,551
Dredging study	517,009	36,715
Engineering fees	13,697	10,973
Surveys and maps	11,445	5,933
Fuel and oil - port vehicles	55,112	46,627
Telephone	13,312	9,482
Uniforms	11,233	9,567
Shop maintenance and supplies	23,160	26,858
Miscellaneous	762	8,757
Total engineering and maintenance	**2,530,948**	**1,902,623**
Security		
Salaries	697,286	673,051
Payroll taxes	54,877	49,049
Contract services	930,053	892,674
Security equipment	27,848	17,256
Identification badges	113,243	215,660
Uniforms	12,716	11,451
Telephone	5,287	7,004
Maintenance and repairs	19,443	8,191
Contingency		1,557
Miscellaneous	2,041	1,557
Total security	**1,862,794**	**1,877,450**

(Continued)

PORT OF PALM BEACH DISTRICT
Schedule of Operating Expenses (Continued)
For the Fiscal Years Ended
September 30, 2008 and 2007

	2008	2007
Administration		
Salaries	$ 856,695	$ 964,830
Payroll taxes	66,611	70,154
Telephone	30,333	33,276
Maintenance and repairs	8,624	8,433
Computer maintenance	17,790	8,902
Supplies, stationary and printing	28,858	29,424
Computer supplies	17,655	12,177
Postage	4,459	6,347
Training, seminars and consulting	22,568	20,148
Dues and subscriptions	960	507
Publications	1,893	3,455
Legal fees and expenses	157,621	165,608
Miscellaneous	5,430	3,640
Total administration	**1,219,497**	**1,326,901**
Business development		
Salaries	295,774	197,356
Payroll taxes	22,800	14,932
Retirement	30,945	17,946
Advertising and promotion	45,250	53,836
Trade development	111,662	36,214
Community relations	13,727	17,841
Travel	63,058	40,246
Dues and subscriptions	38,318	37,451
Publications	11,305	13,694
Miscellaneous	4,816	2,226
Total business development	**637,655**	**431,742**
Operations		
Salaries	236,425	251,190
Payroll taxes	17,616	18,972
Consulting - rail	7,630	4,811
Contract services - parking	1,151	68,687
Cruise line transportation	64,575	56,152
Maintenance and repairs - train	23,132	31,100
Maintenance and repairs - track	44,777	45,666
Switching Services	180,318	169,569
Fuel and oil - train	33,874	21,486
Equipment rental	6,305	5,951
Miscellaneous	12,756	1,535
Total operations	**628,559**	**675,119**
Amortization	**97,034**	**112,561**
Depreciation	**3,660,573**	**3,664,335**
Total operating expenses	**$ 12,554,419**	**$ 11,906,879**

PORT OF PALM BEACH DISTRICT
Schedule of Revenues and Expenses
For the Fiscal Years Ended
September 30, 2008 and 2007

	2008	2007
Revenue		
Port facilities	**$ 10,959,147**	**$ 12,576,647**
Expenses		
General expenses	1,917,359	1,916,148
Engineering and maintenance	2,530,948	1,902,623
Security	1,862,794	1,877,450
Administration	1,219,497	1,326,901
Business development	637,655	431,742
Operations	628,559	675,119
Amortization	97,034	112,561
Depreciation	3,660,573	3,664,335
Total operating expenses	**12,554,419**	**11,906,879**
Operating income (loss)	**(1,595,272)**	**669,768**
Non-operating revenues (expenses)		
Investment earnings	555,819	1,273,597
Grant revenue	836,505	839,574
Loss on disposition of assets	(2,012)	(285,493)
Contingency gain from insurance proceeds		27,059
Radiation portal monitor transfers	(453,559)	(898,264)
Interest expense	(2,473,680)	(2,806,939)
Total non-operating revenues (expenses)	**(1,536,927)**	**(1,850,466)**
Income (loss) before contributions	**(3,132,199)**	**(1,180,698)**
Capital contributions - grants	**9,090,868**	**3,855,281**
Change in net assets	**$ 5,958,669**	**$ 2,674,583**

PORT OF PALM BEACH DISTRICT
Budgetary Comparison Schedule
For the Fiscal Year Ended
September 30, 2008

	Actual	Budget	Variance Over (Under)
Operating revenues			
Wharfage	$ 2,849,117	$ 3,527,300	$ (678,183)
Dockage	1,179,018	1,568,358	(389,340)
Parking	193,691	359,000	(165,309)
Passengers	672,378	955,920	(283,542)
Storage	234,855	185,000	49,855
Water	145,322	163,950	(18,628)
Line handling	72,350	79,285	(6,935)
Switching	442,195	426,400	15,795
Identification badging	164,782	293,000	(128,218)
Terminal operating fee	157,830	238,668	(80,838)
Cargo terminal fee	411,588	465,435	(53,847)
Harbor Master Fees	54,110	67,275	(13,165)
Security Fee	651,655	771,795	(120,140)
Licenses and Permits	78,000	70,000	8,000
Miscellaneous Income/Labor	152,242	94,900	57,342
Rent	3,471,814	3,453,865	17,949
Vessel Bunkers	28,200	38,900	(10,700)
Total operating revenues	10,959,147	12,759,051	(1,799,904)
Operating expenses			
General expenses	1,917,359	2,029,045	(111,686)
Engineering and maintenance	2,530,948	2,459,219	71,729
Security	1,862,794	1,871,285	(8,491)
Administration	1,219,497	1,306,005	(86,508)
Business development	637,655	660,250	(22,595)
Operations	628,559	597,290	31,269
Amortization	97,034	158,333	(61,299)
Depreciation	3,660,573	4,185,110	(524,537)
Total operating expenses	12,554,419	13,266,537	(712,118)
Non-operating revenue (expenses)			
Investment earnings	555,819	930,500	(374,681)
Grant revenue	836,505	170,000	666,505
Loss on disposition of assets	(2,012)		(2,012)
Radiation portal monitor transfers	(453,559)		(453,559)
Interest expense	(2,473,680)	(2,478,611)	4,931
Total non-operating revenue (expenses)	(1,536,927)	(1,378,111)	(158,816)
Income (loss) before contributions	(3,132,199)	(1,885,597)	(1,246,602)
Capital contributions - grants	9,090,868		9,090,868
Change in net assets	$ 5,958,669	$ (1,885,597)	$ 7,844,266

PORT OF PALM BEACH DISTRICT
Schedule of Operating Statistics
For the Fiscal Years Ended
September 30, 2008 and 2007
(Unaudited)

	2008	2007	PERCENT CHANGE
CARGO TONNAGE			
General Cargo			
Container	1,091,694	1,156,025	(5.56%)
Break-bulk	113,491	129,194	(12.15%)
Sub-Total	1,205,185	1,285,219	(6.23%)
Bulk and Dry Cargo			
Asphalt	39,265	61,634	(36.29%)
Cement	125,665	130,711	(3.86%)
Fuel Oil	645,934	958,497	(32.61%)
Diesel	127,179		n/a
Miscellaneous		20,247	n/a
Molasses	193,896	159,388	21.65%
Sugar	425,796	607,443	(29.90%)
Sub-Total	1,557,735	1,937,920	(19.62%)
TOTAL ALL CARGO	2,762,920	3,223,139	(14.28%)
Inbound	116,132	122,317	(5.06%)
Outbound	128,506	135,190	(4.94%)
TOTAL TEUs	244,638	257,507	(5.00%)
Inbound	9,951	10,985	(9.41%)
Outbound	9,862		n/a
TOTAL RAIL CARS	19,813	10,985	80.36%
VESSELS	2,168	2,831	(23.42%)
PASSENGERS	424,204	566,408	(25.11%)

PORT OF PALM BEACH DISTRICT
Schedule of Expenditures of Federal Awards
And State Financial Assistance
For the Year Ended September 30, 2008

Grantor/Program Title	CFDA CSFA Number	Grant Number	Federal/State Expenditures
Federal Awards			
U.S. Department of Homeland Security			
Federal Emergency Management Agency			
Passed through Florida Department of Community Affairs			
Public Assistance Grants (Presidentially Declared Disasters)	97.036	06-WL-&K-10-60-20-549	$ 716,519
Port Security Grant Program	97.056	2007-GB-T7-0123	81,114
Passed through Florida Division of Emergency Management and the City of Miramar and Palm Beach County			
Homeland Security Grants	97.067	07DS-5N-11-16-02-259	157,907
Total Federal Awards			$ 955,540
State Financial Assistance			
Florida Department of Transportation			
Seaport Grants	55.005	AO525	$ 6,846,563
Seaport Grants	55.005	AOX32	804,044
Seaport Grants	55.005	AO483	290,703
Seaport Grants	55.005	ANU93	115,739
Seaport Grants	55.005	AOW76	22,981
			8,080,030
Intermodal Development Program	55.014	AOS08	331,409
Total State Financial Assistance			$ 8,411,439

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards and state financial assistance is a summary of the Port's federal awards programs and state projects for the year ended September 30, 2008, and is is presented in accordance with the requirements of OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General. The schedule has been prepared in accordance with generally accepted accounting principles.

NOTE 2 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies. Any disallowed claims, including amounts already received, might constitute a liability of the Port for the return of those funds. In the opinion of management, all grant expenditures were in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

NOTE 3 - SUBRECIPIENTS

The Port did not provide federal awards or state financial assistance to subrecipients.

OTHER REPORTS

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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 Commissioners
Port of Palm Beach District
Riviera Beach, Florida

We have audited the financial statements of the Port of Palm Beach District, as of and for the year ended September 20, 2008, and have issued our report thereon dated April 27, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Port of Palm Beach District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port of Palm Beach District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port of Palm Beach District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port of Palm Beach District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Port of Palm Beach District's financial statements that is more than inconsequential will not be prevented or detected by the Port of Palm Beach District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Port of Palm Beach District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Port of Palm Beach District'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.*

We noted certain matters that we reported to management of Port of Palm Beach District, in the accompanying Management Letter dated April 27, 2009.

This report is intended solely for the information and use of management, the Board of Commissioners, the audit committee, management, the Florida Office of the Governor, the Florida Department of Transportation, the Auditor General of the State of Florida, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
April 27, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133; and CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

Board of Commissioners
Port of Palm Beach District
Riviera Beach, Florida

Compliance

We have audited the compliance of the Port of Palm Beach District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the Florida Department of Financial Services State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008. The Port of Palm Beach District's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the Port of Palm Beach District's management. Our responsibility is to express an opinion on the Port of Palm Beach District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards***,** issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* and Chapter 10.550, Rules of the Florida Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Port of Palm Beach District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port of Palm Beach District's compliance with those requirements.

In our opinion, the Port of Palm Beach District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the Port of Palm Beach District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Port of Palm Beach District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program and state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port of Palm Beach District's control over compliance

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of a federal program or state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, audit committee, management, the Florida Office of the Governor, the Florida Department of Transportation, the Auditor General of the State of Florida, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
April 27, 2009

PORT OF PALM BEACH DISTRICT
Schedule of Findings and Questioned Costs
September 30, 2008

Section I—Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? ______yes __X__no
- Significant deficiency identified that is not considered to be a material weakness? ______yes __X__none reported

Noncompliance material to financial statements noted? ______yes __X__no

Federal Awards

Internal control over major programs/projects:

- Material weakness identified? ______yes __X__no
- Significant deficiency identified that is not considered to be a material weakness? ______yes __X__none reported

Type of auditor's report issued on compliance for major programs/project: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or Chapter 10.550 Rules of the Florida Auditor General? ______yes __X__no

Identification of Major Programs

CFDA Numbers	Name of Federal Program or Cluster
	U.S. DEPARTMENT OF HOMELAND SECURITY
97.036	• Public Assistance Grants

CSFA Numbers	Name of State Project
	FLORIDA DEPARTMENT OF TRANSPORATION
55.005	• Seaport Grants

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? _____yes __X__no

Section II—Financial Statement Findings

No material weaknesses were identified during the audit of the financial statements nor were any instances of noncompliance material to the financial statements of the Port of Palm District disclosed during the audit.

Section III—Findings and Questioned Costs

Major Federal Programs

U.S. DEPARTMENT OF HOMELAND SECURITY

Public Assistance Grants, CFDA No. 97.036

No material weaknesses in internal control were disclosed by the audit of the major federal award programs, nor were any audit findings relative to the major federal award programs identified that are required to be reported under OMB Circular A-133

Major State Projects

FLORIDA DEPARTMENT OF TRANSPORATION

Seaport Grants, CSFA No. 55.005

No material weaknesses in internal control were disclosed by the audit of the major state projects, nor were any audit findings relative to the major state projects identified that are required to be reported under Chapter 10.550, Rules of the Auditor General.

Section IV—Federal Summary Schedule of Prior Audit Findings

U.S. DEPARTMENT OF HOMELAND SECURITY

Disaster Grants – Public Assistance CFDA No. 97.036

Finding 2007-2

Condition: The Port does not have an adequate set of policies and procedures in place for properly recording the FEMA grant activity. Grant receivables, liabilities and revenue were not being recorded for the current fiscal years activity and not reconciled to actual amounts that were billable, billed and received.

Recommendation: The auditor recommend that the Grant Administrator update and review the project activity sheets and the project worksheets and submit reimbursement requests on a quarterly basis and forward this information to the Finance department. This will enable the Finance department to properly record the FEMA receivable, revenue and liability amounts in a timely manner.

Current Status: The recommendation was implemented during the fiscal year ended September 30, 2008. No similar findings were noted.

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MANAGEMENT LETTER

Board of Commissioners
Port of Palm Beach District
Riviera Beach, Florida

We have audited the basic financial statements of the Port of Palm Beach District, as of and for the year ended September 30, 2008, and have issued our report thereon dated April 27, 2009.

We conducted our audit in accordance with United States generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* and Chapter 10.550, Rules of the Florida Auditor General. We have issued our 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;* Report on Compliance with Requirements Applicable to Each Major Federal Program and State Projects and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, which are dated April 27, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Florida Auditor General, which govern the conduct of local government entity audits in the State of Florida and require that we address certain compliance and other matters in the management letter, if not already addressed in the aforementioned auditor's reports and schedules.

PRIOR YEAR COMMENTS

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

The prior year comment regarding FEMA grant administration has been addressed and no longer applies. See Finding 2007-2 in the accompanying Schedule of Prior Audit Findings.

CURRENT YEAR COMMENTS

Rate Covenants

In accordance with the 1999, 2002, 2005 and 2007 Revenue Bond rate covenants and resolutions of the Board of Commissioners, the Port must fix, establish, maintain and collect rates, fees, rents or other charges for the services and facilities of, the Port, and revise the same from time to time whenever necessary, as will always provide in each year, Net Revenues**,** less all Supplemental Revenues, which shall always be adequate to pay, in each year, at least 110% of the maximum annual debt service requirements for all the Port's Revenue Bonds. For the fiscal year ended September 30, 2008, the Port had no supplemental revenues. Therefore, the Port's Net Revenues for the current fiscal year were deficient by approximately $2,164,000 in meeting the 110% rate covenant. We recommend that the Port monitor the bond rate covenant throughout the year so that appropriate actions can be taken to increase revenues or cut expenses to ensure future compliance.

Investment of Public Funds

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the Port of Palm Beach District's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds. The results of our procedures did not disclose any instances of noncompliance with Section 218.415, Florida Statutes, by the Port of Palm Beach District, for the year ended September 30, 2008.

Current Year Recommendations

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit for the fiscal year ended September 30, 2008, we did not have any such recommendations.

Violations of Contracts and Grant Provisions or Abuse

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit for the fiscal year ended September 20, 2008, we did not have any such findings.

Matters Inconsequential to the Financial Statements

Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures; (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit for the fiscal year ended September 30, 2008, we did not have any such findings.

Oversight Unit and Component Units

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements and has been repeated here.

The Port of Palm Beach District is an independent special taxing district established in 1915 under the provisions of Chapter 7081 of the Laws of Florida; and, as such, is a sub-division of the State of Florida. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Port has determined that there are no potential component units operating within the jurisdiction of the Port that would be required to be considered for inclusion in the financial reporting entity.

Consideration of Financial Emergency Criteria

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, the results of our procedures did not disclose that the Port of Palm Beach District has met any of the conditions described in Section 218.503(1) during the fiscal year ended September 30, 2008.

Annual Financial Report

Section 10.554(1)(i)7.b., Rules of the Auditor General requires that we determine whether the annual financial report for the Port of Palm Beach District for the fiscal year ended September 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008. In connection with our audit, we noted that the two reports were in substantial agreement.

Financial Condition Assessment Procedures

Sections 10.554(1)(i)7.c.and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the Port of Palm Beach District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provide by management. The results of our procedures did not disclose any maters that are required to be reported.

Single Audits

The Port expended more than $500,000 of federal awards and state financial assistance for the year ended September 30, 2008. The Port was required to have a federal and state single audit.

This management letter is intended solely for the information of the Port of Palm Beach District Board of Commissioners, audit committee, management, the Florida Office of the governor, the Florida Department of Transportation, the Auditor General of the State of Florida, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
April 27, 2009