

**PORT OF PALM BEACH DISTRICT**  
**FINANCIAL STATEMENTS WITH INDEPENDENT**  
**AUDITORS' REPORT THEREON**  
**SEPTEMBER 30, 2011**

PORT OF PALM BEACH DISTRICT  
SEPTEMBER 30, 2011

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SEPTEMBER 30, 2011

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**PORT OF PALM BEACH DISTRICT**

**PRINCIPAL OFFICIALS  
AS OF SEPTEMBER 30, 2011**

**PORT BOARD MEMBERS**

Wayne M. Richards	Chairman
George E. Mastics	Vice Chairman
Edward R. Oppel	Secretary/Treasurer
Blair J. Ciklin	Commissioner
Jean L. Enright	Commissioner

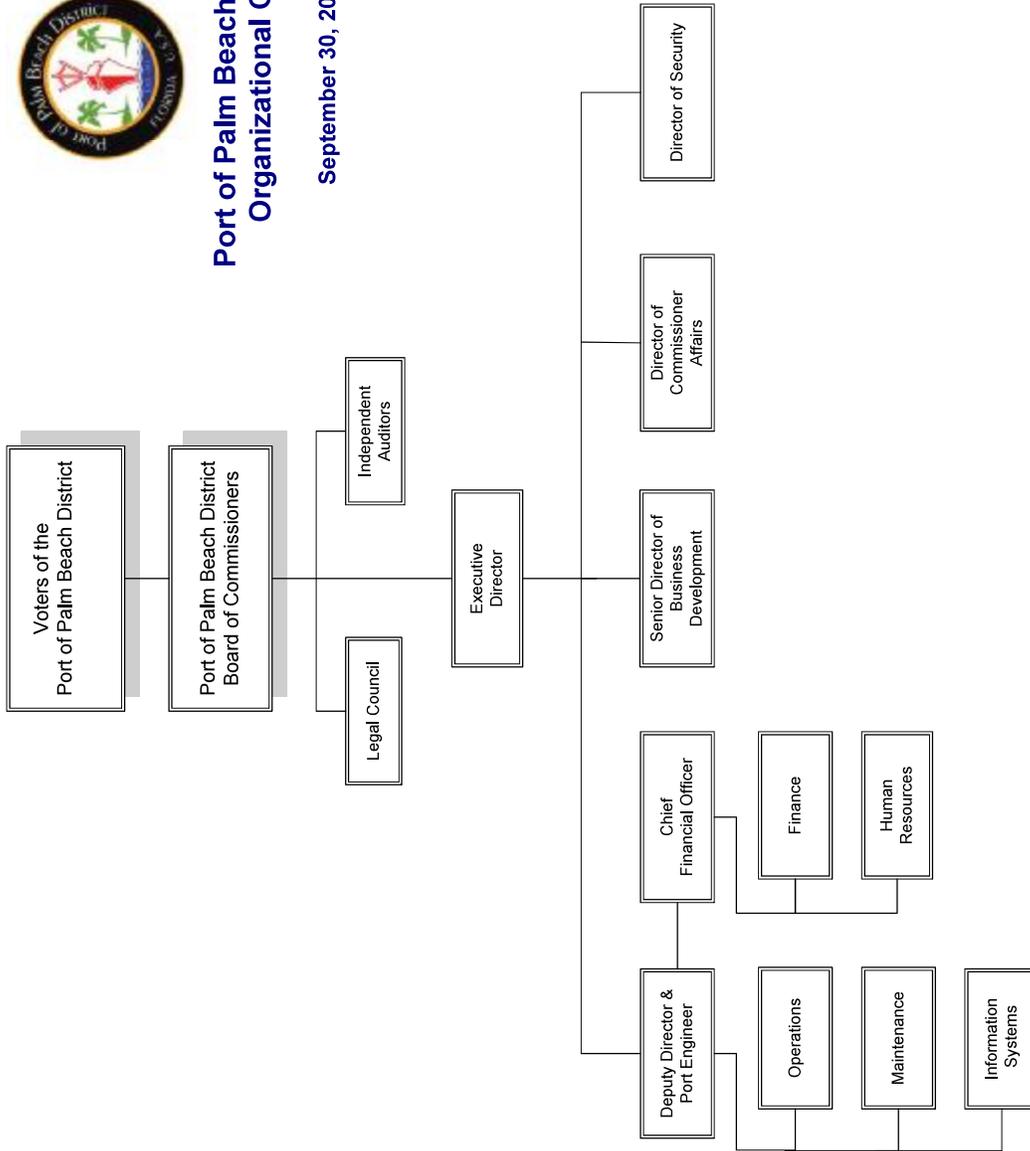
**PORT STAFF**

Manuel Almira	Executive Director
Thomas Lundeen, P.E.	Deputy Director/Port Engineer
Paul J. Zielinski	Chief Financial Officer
Jarra Kaczwarra	Senior Director of Business Development
Peggy Gandiaga	Director of Community Affairs
Ken Hern	Director of Security
Carl Baker	Director of Operations
Daniel Kirchman, CPA	Controller
Richard Laird	Manager of Information Systems
Beatrice Battist	Manager of Human Resources



# Port of Palm Beach District Organizational Chart

September 30, 2011





# NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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WILLIAM B. MINER, CPA  
ROBERT W. HENDRIX, JR., CPA  
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TERRY L. MORTON, JR., CPA  
N. RONALD BENNETT, CPA  
ALEXIA G. VARGA, CPA  
EDWARD T. HOLT, JR., CPA  
BRIAN J. BRESCHIA, CFP®, CPA

KATHLEEN A. MINER, CPA  
J. MICHAEL STEVENS, CPA  
KARA D. PETERSON, CPA

## INDEPENDENT AUDITOR'S REPORT

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BELLE GLADE, FLORIDA 33430-0338  
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FAX (561) 996-6248

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

We have audited the accompanying basic financial statements of the Port of Palm Beach District as of and for the year ended September 30, 2011, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2011, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and the schedule of funding progress – other postemployment benefits on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements as a whole. The introductory section, accompanying schedules listed as other supplementary information on pages 49 through 59, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The prior year other supplementary information has been derived from the Port of Palm Beach District's 2010 basic financial statements and, in our report dated April 15, 2011 we expressed an unqualified opinion on those financial statements. The other supplementary information on pages 49 through 58 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole. The schedule of operating statistics presented on page 59 and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

*Nowlen, Holt & Miner, P.A.*

West Palm Beach, Florida  
May 4, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Port of Palm Beach District (Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port of Palm Beach District for the fiscal years ended September 30, 2011 and 2010. The information presented should be read in conjunction with the financial statements, notes and supplemental schedules found in this report.

### Financial Highlights

- The assets of the Port exceeded its liabilities at the close of the most recent fiscal year by \$80,870,349 (*net assets*). Of this amount, \$7,327,013 (*unrestricted net assets*) may be used to meet the Port's ongoing obligations to creditors.
- The Port's total net assets decreased by \$1,217,035. This decrease consists of \$1,719,792 of loss before contributions, offset by \$502,757 of capital contributions.
- At the end of the current fiscal year, unrestricted net assets were 104% of operating expenses.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of two components: fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 basic financial statements report information about the Port using the full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Please refer to Note 1 in the accompanying financial statements for a summary of the Port's significant accounting policies.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Assets* presents information showing how the Port's 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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of when earnings are recorded, when an obligation arises, noncash amortization expense or depreciation of capital assets.

The basic enterprise fund financial statements can be found on pages 14 - 18 of this report.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 19 – 47 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 49 - 69 of this report.

### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. Assets exceeded liabilities as of September 30, 2011 and 2010 by \$80,870,349 and \$82,087,384, respectively.

The following table reflects the condensed statement of net assets:

#### **Port of Palm Beach District's Net Assets**

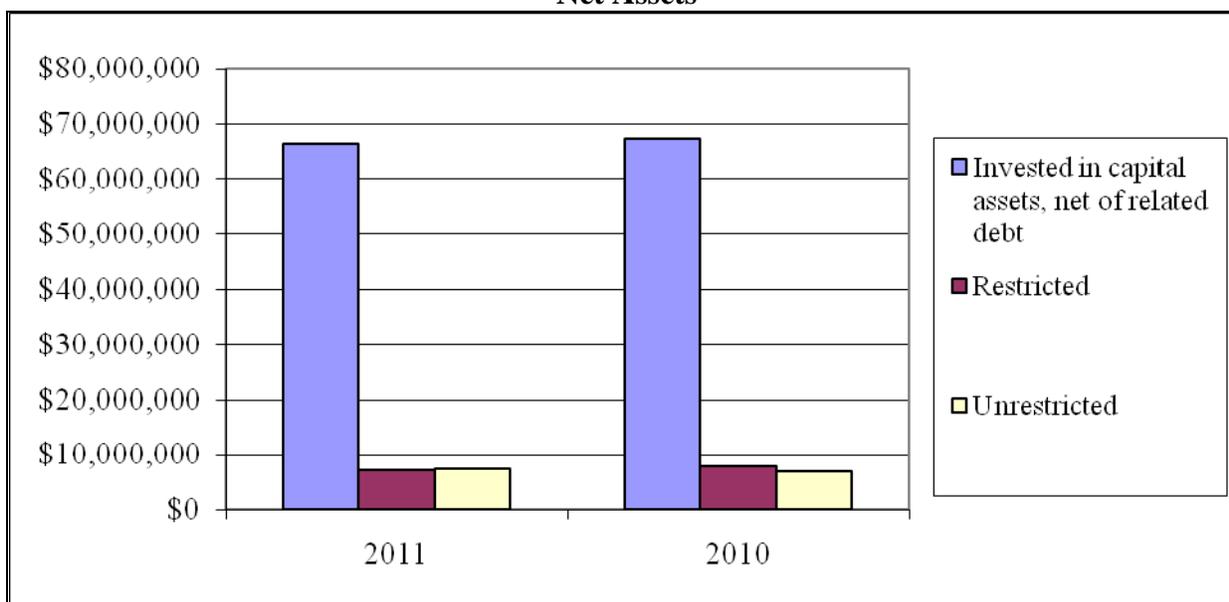
	<u><b>2011</b></u>	<u><b>2010</b></u>
Current and other assets	\$ 19,619,369	\$ 19,138,688
Capital assets, net	105,627,758	108,917,581
Total assets	125,247,127	128,056,269
Current liabilities	4,111,580	3,733,575
Noncurrent liabilities	40,265,198	42,235,310
Total liabilities	44,376,778	45,968,885
Invested in capital assets, net of related debt	66,302,448	67,277,388
Restricted	7,240,888	7,924,521
Unrestricted	7,327,013	6,885,475
Total net assets	\$ 80,870,349	\$ 82,087,384

Current and other assets increased by approximately \$0.48 million as a result of a \$0.32 million increase in cash and cash equivalents that was primarily due to cash generated by the Port's operations and interest earnings which exceeded the purchase of capital assets and debt payments on the revenue bonds. Receivables and prepaid items increased by approximately \$0.27 million that was primarily due to outstanding reimbursement requests due from the Florida Department of Transportation Seaport grants. The remaining \$0.11 million decrease was amortization of deferred charges.

The increase in Current Liabilities of approximately \$0.38 million is the result of a \$0.24 million increase in payables and accrued expenses. These were primarily due to accrued Federal Homeland Port Security pass through grant expenses and engineering fees for the Slip # 3 redevelopment. Also, deferred revenue decreased by \$0.02 million, customer security deposits increased by \$0.06 million and the current portion of long-term debt and interest by \$0.10 million.

The decrease in Noncurrent Liabilities of approximately \$1.97 million is primarily the result of the principal payments of \$2.42 million on the revenue bonds, being partially offset by an increase in accreted interest payable of \$0.45 million.

### Net Assets



By far the largest portion of the Port's net assets as of September 30, 2011 and 2010 (82%) reflects its investment in capital assets (e.g., land, buildings, slips, wharfs, improvements, equipment, vehicles, furniture and fixtures and construction in progress, net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, a portion of the Port's net assets as of September 30, 2011 and 2010 (9%) represents the reserve for maximum debt service, sinking, renewal and replacement, and business development funds restricted in accordance with existing bond covenants and also, capital improvements and compensating balances required by our bank. The remaining balance of unrestricted net assets may be used to meet the Port's ongoing obligations to creditors. At the end of FY 2011, the Port's unrestricted net assets were \$7,327,013 (9% of net assets), an increase of \$441,538 or 6% from FY 2010.

The Port's total net assets decreased by \$1,217,035 in FY 2011. Of this amount, \$497,134 in additions is operating income; \$110,662 of additions is net operating grants and investment earnings, and deletions of \$2,322,513 in interest expense and \$5,075 of losses on disposition of assets which outstripped the operating income, grants and investment earnings. The remaining \$502,757 of additions represents capital contributions from federal and state sources. There is no assurance that these capital contributions from other sources will continue in the future.

The following table reflects the condensed revenue and expense data:

**Port of Palm Beach District's Changes in Net Assets**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Fees and charges for services	\$ 11,915,919	\$ 12,160,397
Non-operating revenues:		
Investment earnings	19,579	25,979
Grant revenue	340,138	622,815
Total non-operating revenues	<u>359,717</u>	<u>648,794</u>
Total revenues	<u>12,275,636</u>	<u>12,809,191</u>
Operating expenses:		
General expenses	1,505,593	1,891,125
Engineering and maintenance	1,859,962	1,872,638
Security	1,698,797	1,658,608
Administration	1,277,805	1,136,359
Business development	376,386	373,230
Operations	293,916	319,788
Sub-total operating expenses	<u>7,012,459</u>	<u>7,251,748</u>
<i>Income before depreciation and amortization</i>	<u>5,263,177</u>	<u>5,557,443</u>
Depreciation and amortization	<u>4,406,326</u>	<u>4,325,784</u>
Total operating expenses	<u>11,418,785</u>	<u>11,577,532</u>
Non-operating expenses:		
Grant expense	249,055	517,652
Other	5,075	
Interest	2,322,513	2,422,258
Total non-operating expenses	<u>2,576,643</u>	<u>2,939,910</u>
Total expenses	<u>13,995,428</u>	<u>14,517,442</u>
Loss before contributions	(1,719,792)	(1,708,251)
Capital contributions - grants	<u>502,757</u>	<u>542,472</u>
Change in net assets	(1,217,035)	(1,165,779)
Net assets - beginning	<u>82,087,384</u>	<u>83,253,163</u>
Net assets - ending	<u>\$ 80,870,349</u>	<u>\$ 82,087,384</u>

Key elements of the increase in net assets for the fiscal year ended September 30, 2011 are as follows.

- Operating Revenues decreased by approximately \$0.24 million or approximately 2%. This was due primarily to a decrease in cargo related revenue that was not offset by a full year of operation by the Bahamas Celebration and increases in fees and charges for services from Tariff # 18 that took effect in November 2010. Total cargo tonnage decreased by approximately 21%. Wharfage, dockage and related revenues, passenger charges, along with rent and related storage are by far the largest portion of the Port's operating revenues, accounting for over 88%.

Celebration Cruise Operator, Inc., (dba Bahamas Celebration) began their second year operations (first full fiscal year) as a multi-day cruise line to the Bahamas under a five year agreement. Under the terms of the agreement the Port receives a Passenger Charge for each departing and arriving passenger, the net proceeds from all parking revenue generated from cruising passengers and has agreed to participate in the cost of the sales and marketing efforts of the Bahamas Celebration based upon their passenger count. Passenger charges were approximately \$4.27 million from 304 thousand passengers and the Ports contribution to the Bahamas Celebration's sales and marketing effort was approximately \$2.89 million, which resulted in net passenger charges of \$1.38 million for FY 2011, an increase of approximately \$0.48 million or 54% over FY 2010, in which there were only 6.5 months of operation.

Wharfage and cargo related revenue decreased by approximately \$0.49 million or 13%, primarily as a result of decreases in shipments of fuel oil, diesel and sugar which was not offset by increases in asphalt, molasses and other miscellaneous shipments. In addition, container tonnage declined approximately 5% and rail cars fell approximately 16% during FY 2011.

Dockage and related revenue had a modest decrease of approximately \$0.01 million or less than 1%. This was due a 10% decline in total vessel traffic primarily diesel, fuel oil and sugar export vessels that did not offset additional dockage days related to the berthing of mega-yachts for repairs, imported sugar and aggregate vessels.

The significant declines in the volume of petroleum cargo, as noted in the Schedule of Operating Statistics on page 59 of this report, is due to the shutdown of the FP&L Riviera Beach generation plant, which used fuel oil, during FY 2010. The plant was demolished in FY 2011 and will be re-built to operate on natural gas. FP&L continues to import fuel oil through the Port for its Martin County plant, however at much lower volumes.

Rent and related storage had a modest decrease of approximately \$0.01 million or less than 1%.

Parking fees increased by approximately \$0.20 million or 33%, primarily as a result of the Bahamas Celebration operating a full year in FY 2011 versus approximately 6.5 months in FY 2010.

There was no passenger wharfage and related revenue recognized in FY 2011 as a result of the Palm Beach Princess, a day cruise gaming vessel, which filed for bankruptcy and ceased operations in February 2010, and as such, only approximately \$0.23 million of revenue was recognized in FY 2010.

The remaining operating revenues which consist of switching, licenses, permits, identification badging and miscellaneous income decreased by approximately \$0.18 million or 24%.

The Schedule of Port Facilities Revenues can be found on page 54 of this report.

- Investment Earnings fell by over \$6 thousand as overall U.S. interest rates declined to historical lows.
- Operating Grant Income decreased by over \$206 thousand, due primarily to the Port going from receiving \$249 thousand in FY 2011 to \$517 thousand in FY 2010 from the FEMA Port Security Grant Program for maritime transportation that was transferred to the Palm Beach County Sheriff's Department as a subrecipient under Grant Expense. The Palm Beach County Sheriff's Department was winding down one grant and just starting another one during FY 2011.
- Operating Expenses before depreciation and amortization decreased by approximately \$239 thousand or 3% primarily as a result of reduced General expenses. During FY 2009 the Port of Palm Beach District undertook a significant effort to reduce expenditures primarily through staff reductions, conservation efforts, and the use of contract services personnel for security, eliminating the railroad contract and bringing the operation of the railroad in-house with existing staff. Between FY 2008 and FY 2011 operating expenses decreased by approximately \$1.78 million or 20%. These changes continue to have a positive effect in reducing expenses. Operating Expense containment continues to be a priority for Port Management.

Salaries and benefits represent the largest portion of the Port's operating expenses before depreciation and amortization at approximately 50%. Salaries and benefits had a modest increase of approximately \$24 thousand or less than 1%.

Administration expense (excluding employee benefits) increased by approximately \$60 thousand or 25%, which was primarily for legal fees regarding a litigation matter.

General expense (excluding employee benefits) decreased by approximately \$324 thousand or 34%, due primarily to reductions in consulting costs and general insurance premiums for casualty, property and liability coverage.

Engineering and maintenance expense (excluding salaries and benefits) had a modest increase of approximately \$23 thousand or 2%, due primarily to increases in water cost from the Bahamas Celebration operating usage for a full fiscal year that did not offset reduced costs for maintenance and repair of the building and grounds.

Security expense (excluding salaries and benefits) had a modest decrease of approximately \$11 thousand or 1%. This was due primarily to decreases in identification badging costs as a result of new seaport security fee regulations under Florida statutes that offset increases in maintenance and repairs for the purchase of a maintenance contract for new radios that was fully reimbursed by the Port Security operating grant.

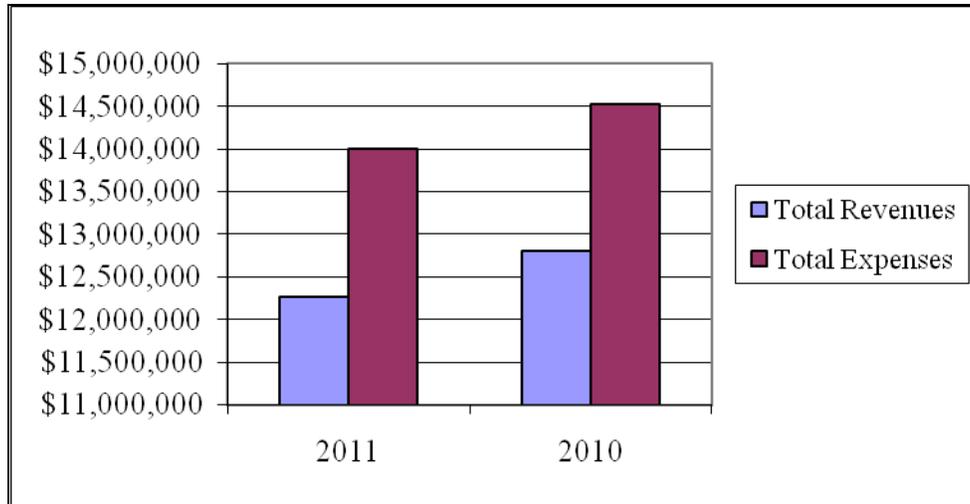
Business development expenses (excluding salaries and benefits) decreased by approximately \$11 thousand or 7% in various areas at insignificant amounts.

Depreciation and amortization expense increased by approximately \$81 thousand or 2%, primarily the result of additional improvements in land, building and other and security equipment and computers.

The Schedule of Operating Expenses can be found on pages 55 - 56 of this report.

- Capital contributions - grants had no significant changes and only decreased approximately \$40 thousand for a total of \$503 thousand. The Port receiving \$237 thousand for the engineering study and design of Slip # 3 redevelopment, \$184 thousand for cargo lay down at Southgate and \$49 thousand for cargo transfer land improvements all from the Florida Department of Transportation Seaport grants and the remaining \$33 thousand from the Federal Homeland Port Security grant for various security equipment and improvements.

### Total Revenues and Expenses



### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital assets:** The Port’s capital assets as of September 30, 2011 amounted to approximately \$105.6 million, (net of accumulated depreciation). This investment in capital assets includes land, buildings, facility and infrastructure improvements and equipment, furniture and fixtures, and construction work in progress. Capital asset acquisitions are capitalized at cost and depreciated over estimated useful lives using the straight-line method.

The total decrease in the Port’s investment in capital assets after accumulated depreciation for FY 2011 was \$3.3 million. This was attributable to an increase in Accumulated Depreciation of \$4.0 million and offset by a \$0.7 million increase in Capital Assets, of which the majority were improvements in land, building and other and Port security equipment and computers.

The Port’s major capital project for the next several years will be Slip # 3 Redevelopment, as such, the Port’s Capital Program restarted in FY 2011 with a major commitment to the refurbishment and enhancement of its oldest slip. The improvements for Slip #3, constructed in the mid-1950’s, are scheduled to be completed by 2014 – 2015 and will provide the Port with additional “roll on / roll off capability.

Construction-in-progress projects total approximately \$1.2 million as of September 30, 2011 and include the following projects:

- Slip # 3 Redevelopment
- 821 Avenue E project
- Master Plan update

The Port's capital program is funded through a combination of port facility fees and charges for services, federal and state grants, non-operating revenues, and revenue bond issues. Additional information on the Port's capital assets can be found in Note 3, in the accompanying notes to the financial statements.

**Port of Palm Beach District's Capital Assets**  
(net of accumulated depreciation)

	<u>2011</u>	<u>2010</u>
Land	\$ 26,930,963	\$ 26,866,009
Buildings and improvements	40,925,673	41,975,670
Slips and improvements	13,846,925	14,336,127
Other improvements	16,788,411	18,072,549
Wharf and loading ramps	4,779,844	4,949,841
Machinery and equipment	1,020,772	1,305,043
Autos and trucks	18,566	81,991
Furniture and fixtures	121,035	151,996
Construction in progress	1,195,569	1,178,355
Total net assets	\$ 105,627,758	\$ 108,917,581

**DEBT ADMINISTRATION**

**Long-term debt:** The Port had outstanding revenue bonds of approximately \$40.7 million as of September 30, 2011. Of this amount approximately \$2.5 million is current and will mature by September 1, 2012. There were no new bonds issued during FY 2011. The Port's outstanding revenue bonds are secured by a first lien upon and a pledge of the operating revenues. Additional information on the Port's long-term debt can be found in Note 4, in the accompanying notes to the financial statements.

The Port of Palm Beach District is required by the terms of the Series 1999 A, Series 2002, Series 2005 and Series 2007 Revenue Refunding Bonds to generate sufficient Net Revenues so as to maintain a minimum ratio of 110% to the debt service requirement for that year. In FY 2011 and 2010, the Port met this requirement.

The Port's outstanding revenue bonds maintain a "BBB-" rating from both Standard & Poor's and Fitch Ratings and a "Ba1" rating from Moody's Investors Service.

**Port of Palm Beach District's Outstanding Debt  
Revenue Bonds**

	<u>2011</u>	<u>2010</u>
Revenue bonds payable	\$ 40,703,686	\$ 43,126,805
Less deferred amounts:		
For issuance discounts	(556,204)	(604,166)
Loss on refundings	(822,172)	(882,442)
Total revenue bonds payable	\$ 39,325,310	\$ 41,640,197

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Port of Palm Beach has been very successful, thus far, in FY 2012, both increasing revenue from existing sources, as well as, developing significant new, and sustainable, revenue streams for years to come. Additionally, contract negotiations were successful in improving revenue at the Port by standardizing and/or adjusting minimum guarantees and rates on selected cargo.

Looking at our existing business base, opportunities to increase our revenue were very carefully considered weighing both the current economic environment and, where appropriate, our competitive position. Our tariff rates were reviewed and selected items were increased at the beginning of FY 2011. However, with continued competitive constraints and declining market conditions, the Port will not raise tariff rates in FY 2012.

FY 2012, thus far, has been an extremely successful year in bring new business to the Port. A long-term agreement was reached for metal exportation, a Day Cruise operator has signed a contract to commence sailings in the spring of this year and a bio-fuel manufacturer has commenced construction of facility on the Port under a multi-year agreement with us. With other opportunities still being sought, to date the above new business will generate approximately \$1.5 million annually in additional operating revenues in future years.

The Port of Palm Beach District will continue an aggressive marketing campaign to both solicit new business and grow current business.

Key elements of the FY 2012 Operating Budget are as follows.

- Net operating revenues are budgeted to increase 21.58 percent, while operating expenses are budgeted to increase only 3.40 percent.
- Income before capital contributions is budgeted at approximately \$1.2 million. This represents a 131 percent increase over actual FY 2011.

**PORT OF PALM BEACH DISTRICT**  
**Statement of Net Assets**  
**September 30, 2011**

**ASSETS**

	<b>2011</b>
<b>Current assets:</b>	
Cash and cash equivalents	\$ 6,335,749
Accounts receivable (net of allowance for uncollectables of \$84,947)	716,086
Accrued interest receivable	374
Prepaid items	99,954
Restricted assets:	
Cash and cash equivalents	11,168,935
Grants receivable	401,635
Accounts receivable	3,645
Prepaid items	97,809
<b>Total current assets</b>	<b>18,824,187</b>
 <b>Noncurrent assets:</b>	
Unamortized bond issue costs	659,551
Restricted deferred charges	135,631
Total other noncurrent assets	795,182
Capital assets:	
Land and land rights	26,930,963
Buildings and improvements	60,517,355
Slips and improvements	22,405,782
Other improvements	33,394,353
Wharf and loading ramps	7,798,154
Machinery and equipment	3,211,745
Autos and trucks	472,831
Furniture and fixtures	223,711
Construction in progress	1,195,569
Less accumulated depreciation	(50,522,705)
Total capital assets (net of accumulated depreciation)	105,627,758
<b>Total noncurrent assets</b>	<b>106,422,940</b>
 <b>Total assets</b>	 <b>125,247,127</b>

## LIABILITIES

	<u>2011</u>
<b>Current liabilities</b>	
Accounts payable and accrued expenses	\$ 542,663
Deferred revenue	137,919
Compensated absences payable	218,698
Payable from restricted assets:	
Customer deposits	70,000
Accounts payable	326,153
Contracts payable	141,543
Accrued interest payable	138,432
Current portion of long-term debt	2,536,172
<b>Total current liabilities</b>	<u><b>4,111,580</b></u>
<b>Noncurrent liabilities</b>	
Compensated absences payable	218,697
Other postemployment benefits	29,563
Restricted accreted interest payable	3,227,800
Revenue bonds payable (less unamortized bond discount and deferred loss on refunding)	39,325,310
Less: current portion	<u>(2,536,172)</u>
<b>Total noncurrent liabilities</b>	<u><b>40,265,198</b></u>
<b>Total liabilities</b>	<u><b>44,376,778</b></u>

## NET ASSETS

Invested in capital assets, net of related debt	\$ 66,302,448
Restricted for debt service	1,303,678
Restricted for renewal and replacement	1,164,212
Restricted for business development	675,703
Restricted for capital improvements	4,092,755
Restricted for customer deposits	4,540
Unrestricted	<u>7,327,013</u>
<b>Total net assets</b>	<u><b>\$ 80,870,349</b></u>

See notes to the financial statements

**PORT OF PALM BEACH DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Year Ended September 30, 2011**

	<b>2011</b>
<b>Operating revenue</b>	
Port facilities	\$ 14,804,862
Less: Direct marketing support	(2,888,943)
<b>Net operating revenue</b>	<b>11,915,919</b>
 <b>Operating expenses</b>	
General expenses	1,505,593
Engineering and maintenance	1,859,962
Security	1,698,797
Administration	1,277,805
Business development	376,386
Operations	293,916
<b>Operating expenses before depreciation and amortization</b>	<b>7,012,459</b>
 <b>Operating income before depreciation and amortization</b>	<b>4,903,460</b>
 <b>Depreciation and amortization expense</b>	<b>4,406,326</b>
 <b>Operating income (loss)</b>	<b>497,134</b>
 <b>Non-operating revenues (expenses)</b>	
Investment earnings	19,579
Grant revenue	340,138
Grant expense	(249,055)
Loss on disposition of assets	(5,075)
Interest expense	(2,322,513)
<b>Total nonoperating revenue (expenses)</b>	<b>(2,216,926)</b>
 <b>Income (loss) before contributions</b>	<b>(1,719,792)</b>
 <b>Capital contributions - grants</b>	<b>502,757</b>
 <b>Change in net assets</b>	<b>(1,217,035)</b>
 <b>Total net assets - beginning</b>	<b>82,087,384</b>
 <b>Total net assets - ending</b>	<b>\$ 80,870,349</b>

See notes to the financial statements

**PORT OF PALM BEACH DISTRICT**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended September 30, 2011**

	<b>2011</b>
<b>Cash flows from operating activities:</b>	
Receipts from customers and users	\$ 11,898,291
Payments to suppliers for goods and services	(3,244,034)
Payments to or on behalf of employees	(3,654,747)
<b>Net cash provided by operating activities</b>	<b>4,999,510</b>
 <b>Cash flows from non-capital financing activities</b>	
Grant revenues received	344,108
Payments to grant subrecipient	(249,055)
<b>Net cash provided by non-capital financing activities</b>	<b>95,053</b>
 <b>Cash flows from capital and related financing activities</b>	
Acquisition and construction of capital assets	(905,452)
Disposal of capital assets	1,500
Interest paid on debt	(1,769,309)
Principal paid on revenue bond maturities	(2,423,119)
Capital grants received	305,153
<b>Net cash provided (used) for capital and related financing activities</b>	<b>(4,791,227)</b>
 <b>Cash flows from investing activities</b>	
Interest received on investments	19,205
<b>Net cash provided (used) by investing activities</b>	<b>19,205</b>
 <b>Net increase (decrease) in cash and cash equivalents</b>	<b>322,541</b>
 <b>Cash and cash equivalents- beginning</b>	<b>17,182,143</b>
 <b>Cash and cash equivalents - ending</b>	<b>\$ 17,504,684</b>

See notes to the financial statements

**PORT OF PALM BEACH DISTRICT**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended September 30, 2011**  
**(Continued)**

	<b>2011</b>
<b>CASH AND CASH EQUIVALENTS CLASSIFIED AS :</b>	
Unrestricted assets	\$ 6,335,749
Restricted assets	11,168,935
Total	\$ 17,504,684
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 497,134
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:	
Depreciation expense	4,297,853
Amortization expense	108,473
(Increase) decrease in assets	
Accounts receivable	(54,756)
Prepaid expenses	(17,848)
Customer deposits	55,000
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	127,679
Deferred income	(17,872)
Other post employment benefits	3,847
Total adjustments	4,502,376
<b>Net cash provided (used) by operating activities</b>	<b>\$ 4,999,510</b>

See notes to the financial statements

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**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, as amended; and, as such, is a political 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, passenger charges, and rental income; it is a major modal 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.

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

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Basis of Presentation** (Continued)

**Proprietary Fund Type** (Continued)

assets in association with a specific program and are recognized when earned. Grant receivable is recorded when the Port has a right to reimbursement under the related grant. 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* - 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.

*Unrestricted net assets* – This component of 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**

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 recorded when a liability is incurred, regardless of the timing of the related cash flow. Non-capital grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider are met.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Basis of Accounting** (Continued)

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.

**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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Restricted Assets** (Continued)

*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 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Accounts Receivable**

The Port records accounts receivable at estimated net realizable value. Accordingly, accounts receivable at September 30, 2011 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, if purchased and at estimated fair value for assets contributed, less accumulated depreciation. The Port defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years.

Costs for maintenance, repairs, 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.

**Deferred Revenue**

Resources that do not meet revenue recognition requirements (not earned) are recorded as deferred revenue. Deferred revenue consists primarily of unearned lease revenue.

**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.

**Revenues**

Wharfage, rentals, dockage, parking, switching, passenger charges, and other revenues for the use of, and privileges at the Port's facilities are reported as operating revenues. Receipts 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 revenues.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**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.

**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 collectability 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 Port's enabling legislation requires adoption of an annual operating budget. The Port adopts an annual operating and capital improvement budget resolution prior to September 30, for the next ensuing fiscal year. The Port's budgets are prepared on the accrual basis of accounting which is consistent with generally accepted accounting principles. Operating budgets for the enterprise fund are based on level of service expectations. Capital improvement projects are budgeted to provide control over authorized project expenses and ensure legal compliance.

**Budgetary Information**

The budget is prepared and controlled at the departmental level. The budget and any amendments which require a change in total appropriations of any department are approved by the Port's Board. The Executive Director is authorized to transfer budgeted amounts within the departments. Budget amounts have been adjusted for legally authorized revisions of the annual budgets approved during the year. The Port's schedule of revenues, expenses and income before capital contributions compared with the legally adopted budget is presented as supplementary information on page 58.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Budgetary Information** (Continued)

The Port shall have the power, and is authorized to issue general obligation bonds to finance the cost or part of the cost of the construction, acquisition, reconstruction, extension, repair or improvement of any works, projects, properties, improvements, or other purposes, except for the payment of current expenses, which the Port has statutory authority to construct, acquire or undertake. The Port is also authorized and empowered to levy upon all the real and personal taxable property of said Port's district a special tax sufficient in amount to pay the interest becoming due and payable annually upon any bonds issued, or money borrowed or to be borrowed by the said Port, for which the full faith and credit of the Port is pledged (general obligation bonds), and in addition, a special tax not exceeding two (2) mills on the dollar of the assessed valuation of taxable property in the Port's district or two hundred thousand (\$200,000.00) dollars, whichever is smaller, in each year to pay the costs of operation, maintenance and other purposes of the Port under statutory authority. The Port does not have any general obligation bonds outstanding and has not levied property taxes since the fiscal year ended 1975 and does not expect to do so in the foreseeable future.

**Determination of Operating versus 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Deposits**

As of September 30, 2011, the Port's book balance for deposits in "Qualified Public Depositories" was \$12,802,434 and the related bank balance totaled \$12,843,023. The Port also had \$1,550 in petty cash for a total carrying amount of \$12,803,984.

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.

*Custodial credit risk* – For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Port will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Port requires all deposits to be in Qualified Public Depositories to control custodial credit risk. As of September 30, 2011, the Port's deposits are considered insured for custodial credit risk purposes.

**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;

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

**Investments** (Continued)

(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.

As of September 30, 2011, the Port held the following investments, which are reported as cash and cash equivalents in the statement of net assets:

	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Wells Fargo Advantage Institutional US Government Money Market Fund (1)	Aaa-mf & AAAM	\$4,350,003	Maximum 60 days
Milestone Treasury Obligations Portfolio Money Market Fund (2)	AAAMmf & AAAM	<u>350,697</u>	Maximum 60 days
		<u>\$4,700,700</u>	

(1) Moody's and Standard & Poor's (2) Fitch 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

**Investments** (Continued)

*Custodial credit risk* – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Port will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At September 30, 2011, the Port’s investments consisted of open-end money market mutual funds which are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

A reconciliation of deposits and investments at September 30, 2011 is as follows:

By Category:

Deposits	\$ 12,802,434
Petty cash	1,550
Investments	4,700,700
Total deposits and investments	<u>\$17,504,684</u>
Presented in the statement of net assets	
Cash and cash equivalents	\$ 6,335,749
Restricted cash and cash equivalents	11,168,935
Total statements of net assets	<u>\$17,504,684</u>

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 3 – PROPERTY AND EQUIPMENT**

A summary of changes in capital assets for the year ended September 30, 2011, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 26,866,009	\$ 64,954	\$	\$ 26,930,963
Construction	1,178,355	1,014,217	(997,003)	1,195,569
Total capital assets, not being depreciated	<u>28,044,364</u>	<u>1,079,171</u>	<u>(997,003)</u>	<u>28,126,532</u>
Capital assets, being depreciated:				
Building and improvements	60,180,530	494,623	(157,798)	60,517,355
Slips and improvements	22,388,604	17,178		22,405,782
Other improvements	33,070,067	324,286		33,394,353
Wharf and loading ramps	7,798,154			7,798,154
Machinery and equipment	3,170,799	96,352	(55,406)	3,211,745
Autos and trucks	497,648		(24,817)	472,831
Furniture and fixtures	282,119		(58,408)	223,711
Total capital assets, being depreciated	<u>127,387,921</u>	<u>932,439</u>	<u>(296,429)</u>	<u>128,023,931</u>
Less: accumulated depreciation	(46,514,704)	(4,297,853)	289,852	(50,522,705)
Total capital assets, being depreciated, net	<u>80,873,217</u>	<u>(3,365,414)</u>	<u>(6,577)</u>	<u>77,501,226</u>
Total capital assets, net	<u>\$108,917,581</u>	<u>\$(2,286,243)</u>	<u>\$(1,003,580)</u>	<u>\$105,627,758</u>

**NOTE 4 – LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Revenue bonds payable	\$43,126,805	\$	\$(2,423,119)	\$40,703,686	\$2,536,172
Less deferred amounts:					
Issuance discounts	(604,166)		47,962	(556,204)	
Loss on refunding	(882,442)		60,270	(822,172)	
Total bonds payable	<u>41,640,197</u>		<u>(2,314,887)</u>	<u>39,325,310</u>	<u>2,536,172</u>
Compensated absences	437,395	218,697	(218,697)	437,395	218,698
Other postemployment benefits	21,038	12,851	(4,326)	29,563	
Accreted interest payable	<u>2,773,818</u>	<u>453,982</u>		<u>3,227,800</u>	
Total long-term liabilities	<u>\$44,872,448</u>	<u>\$ 685,530</u>	<u>\$(2,537,910)</u>	<u>\$43,020,068</u>	<u>\$2,754,870</u>

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 4 – LONG-TERM LIABILITIES** (Continued)

**Interest Expense**

The total interest costs paid and incurred by the Port for the fiscal year ended September 30, 2011, were \$1,769,309 and \$2,322,513, respectively. No interest was capitalized during the year.

**Revenue Bonds**

The Port is authorized to issue Revenue Bonds for the purpose of constructing and financing modern Port facilities. At September 30, 2011, the following Revenue Bonds were outstanding:

- \$25,195,000 Revenue Refunding Bonds, Series 1999A
- \$9,576,835 Revenue Refunding Bonds, Series 2002
- \$13,090,044 Revenue Refunding Bonds, Series 2005
- \$10,139,551 Revenue Refunding Bonds, Series 2007

These 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 total principal and interest remaining to be paid on the revenue bonds is \$63,891,869. Principal and interest paid for the year ended September 30, 2011 totaled \$4,192,428 and pledged gross revenues were \$11,915,919. At September 30, 2011, principal and interest to maturity in September 2026 to be paid from pledged future revenues totaled \$63,891,869.

The pledge of the gross 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 are at least 125% of the maximum annual debt service requirements for all the Port's Revenue Bonds. Notwithstanding the foregoing, Net Revenues,

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 4 – LONG-TERM LIABILITIES** (Continued)

**Revenue Bonds** (Continued)

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 the 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, 2011, the Port had no supplemental revenues. At September 30, 2011, the Port was in compliance with the bond covenants.

**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%. The tax-exempt bonds are subject to alternative minimum tax. 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, (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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 4 – LONG-TERM LIABILITIES** (Continued)

**Revenue Improvement Bonds, Series 1999 A** (Continued)

Debt service requirements to maturity are as follows at September 30, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 880,000	\$ 865,560	\$ 1,745,560
2013	925,000	819,360	1,744,360
2014	970,000	770,335	1,740,335
2015	1,025,000	718,925	1,743,925
2016	1,080,000	663,831	1,743,831
2016-2021	6,340,000	2,374,306	8,714,306
2022-2024	4,700,000	526,075	5,226,075
	<u>\$15,920,000</u>	<u>\$6,738,392</u>	<u>\$22,658,392</u>

**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, 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 4 – LONG-TERM LIABILITIES** (Continued)

**Revenue Refunding and Improvement Bonds, Series 2002** (Continued)

Debt service requirements to maturity are as follows at September 30, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 510,000	\$ 20,400	\$ 530,400
2013			
2014			
2015			
2016			
2017-2021			
2022-2026	5,041,835	11,473,165	16,515,000
	<u>\$5,551,835</u>	<u>\$11,493,565</u>	<u>\$17,045,400</u>

**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.

Debt service requirements to maturity are as follows at September 30, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 275,000	\$ 468,725	\$ 743,725
2013	590,044	683,369	1,273,413
2014	815,000	458,413	1,273,413
2015	850,000	425,813	1,275,813
2016	885,000	391,813	1,276,813
2017-2021	8,835,000	1,249,065	10,084,065
	<u>\$12,250,044</u>	<u>\$3,677,198</u>	<u>\$15,927,242</u>

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 4 – LONG-TERM LIABILITIES** (Continued)

**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, 2011:

	Principal	Interest	Total Debt Service
2012	\$ 871,172	\$ 306,501	\$1,177,673
2013	912,667	268,257	1,180,924
2014	953,233	228,191	1,181,424
2015	992,830	186,344	1,179,174
2016	1,037,415	142,758	1,180,173
2017-2018	2,214,490	146,977	2,361,467
	<u>\$6,981,807</u>	<u>\$1,279,028</u>	<u>\$8,260,835</u>

**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 March 9, 2009, Moody's Investors Service downgraded the insurance financial strength rating of Syncora Guarantee, Inc., to 'Ca' with a developing outlook. In addition, on July 28, 2010, Standard & Poor's Rating Service withdrew its 'D' counterparty credit rating and its 'R' financial strength and financial enhancement rating on Syncora Guarantee, Inc.

The Revenue Improvement Bonds, Series 1999A issued by the Port in a prior year were insured by MBIA Insurance Corp. (MBIA). On February 17, 2009, MBIA restructured its insurance operating companies. National Public Finance Guaranty Corp. (National) became a sister company of MBIA. Management has stated that National is now the public finance insurer within the group and has assumed the U.S. public finance book of business from MBIA on a reinsurance-cut-through basis. On December 19, 2011, Moody's Investors Service downgraded the insurance financial strength rating of National to 'Baa2' with a negative outlook. In addition,

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 4 – LONG-TERM LIABILITIES** (Continued)

**Bond Insurers** (Continued)

on December 22, 2010, Standard & Poor's lowered its rating on National to 'BBB' with a developing outlook. Syncora and MBIA are not rated by Fitch Ratings.

**Defeased Debt**

Pursuant to the GASB Statement No. 7, *Advanced Refunding Resulting in Defeasance of Debt*, the Port defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Port's financial statements. At September 30, 2011, the principal outstanding but considered extinguished under these funding arrangements is as follows:

Revenue Refunding Bonds, Series 1996A	<u>\$ 505,000</u>
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**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.

**Collective Bargaining Agreement**

The Port's workforce is made up of approximately 51 employees. Substantially all the Port's non-management maintenance, railroad and security employees are union employees, which represents about 45% of the total. The Port renewed its collective bargaining agreement with the National Association of Government Employees, which was effective as of October 1, 2009. 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: holidays, leaves of absence, work assignments, schedule, performance evaluation, wages, 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 questions or disputes through collective bargaining, grievance and arbitration procedures, or the Public Employees Relations Commissions or other appropriate governmental agency and the courts in the event of alleged unfair labor practices or other improper conduct

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 5 – CONTRACTS AND CONTINGENCIES** (Continued)

**Contractual Commitments**

As of September 30, 2011, the Port had significant contractual commitments for the following projects:

<u>Project</u>	<u>Contract Balance</u>
Slip #3 Rehabilitation and Improvement	\$ 1,747,711
Rail Improvements	263,951
Master Plan Update	<u>95,586</u>
	<u><u>\$ 2,107,248</u></u>

**Security Services Agreement**

On January 3, 2009, the Port entered into an agreement with a security company to provide professional security services for all areas of the Port twenty-four hours a day seven days a week. Such services include without limitation the control of access to the Port, coordinated with Port security, police and fire personnel for the benefit of the Port and such other security services and activities as are generally provided for similar areas and as may be agreed between the parties and contained in a procedural manual written by the security company and approved by the Port. The contract period ended on December 31, 2009, but under the terms of the agreement, the security services are currently provided on a month-to-month basis until either party terminates the agreement with thirty days written notice. The security company bills the Port weekly at the contract hourly rates for services provided. For the fiscal year ended September 30, 2011, the Port incurred costs of \$676,037 pursuant to the agreement

**NOTE 6 - 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, 2011 was \$3,782,088. Future minimum rentals are predicated upon the ability of the lessees to meet their commitments.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 6 - LEASING ACTIVITIES** (Continued)

Minimum future rentals under non-cancelable operating leases having an initial term in excess of one year as of September 30, 2011 are as follows:

2012	\$ 3,711,488
2013	2,922,180
2014	1,580,129
2015	1,522,870
2016	1,443,516
Thereafter	<u>7,227,757</u>
Total minimum future rentals	<u>\$ 18,407,940</u>

**NOTE 7 – EMPLOYEE RETIREMENT PLAN**

***Florida Retirement System Pension Plan - Defined Benefit***

**Plan Description**

All full-time employees of the Port are members in the Florida Retirement System (FRS), a cost-sharing, multiple-employer public 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, 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. 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Florida Retirement System Pension Plan - Defined Benefit** (Continued)

**Plan Description** (Continued)

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.

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.

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%. The election to participate in DROP must be made within 12 months of the member's normal retirement date, unless the member is eligible to defer the election. 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Florida Retirement System Pension Plan - Defined Benefit** (Continued)

**Plan Description** (Continued)

For members whose DROP termination dates or non-DROP retirement dates are effective before July 1, 2010, they must end all employment relationships with all FRS employers for one calendar month to complete their retirement process, in addition to meeting all other requirements and be eligible to receive monthly benefits payable under the FRS Pension Plan. For members whose DROP termination dates or non-DROP retirement dates are effective on or after July 1, 2010, they must end all employment relationships with all FRS employers for six calendar months to complete their retirement process, in addition to meeting all other requirements and be eligible to receive monthly benefits payable under the FRS Pension Plan.

The benefits received by retirees and beneficiaries are increased by a 3% cost-of-living adjustment (COLA) each July based on their June benefit amount (excluding the Retiree Health Insurance Subsidy benefit). For retirees who have been retired for less than 12 months on July 1, the first COLA increase is prorated. The COLA applies to all continuing monthly retirement benefits paid under the FRS Pension Plan (i.e., normal and early service retirement benefits and benefits accruing in participant accounts under DROP, disability retirement benefits, and survivor benefits).

Retirees of the FRS who are reemployed in regularly established positions will have renewed membership in the Regular Class, the Senior Management Service Class, or the Elected Officers' Class and earn credit toward a second-career benefit based on requirements for their class of membership if they have established renewed membership by June 30, 2010. Having a break in service or not being employed on July 1, 2010 does not change a renewed member's status. Once retirees have established renewed membership in the system, they will have the same opportunities to elect to participate in alternative retirement programs, or to withdraw from the system altogether, as do similarly situated newly hired members of that membership class until they retire. Renewed members are subject to the same vesting requirements and other limitations as apply to other active members. However, renewed members are not eligible to participate in the Special Risk Class, the Deferred Retirement Option Program, or to retire under disability retirement provisions. If retirees of the FRS are initially reemployed on or after July 1, 2010, they will not be eligible for renewed membership.

After retirement or DROP termination, retired FRS members may be employed by any private employer or any public employer not participating in the FRS without affecting his/her FRS benefits. However, restrictions apply to reemployment with an FRS employer.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Florida Retirement System Pension Plan - Defined Benefit** (Continued)

**Plan Description** (Continued)

The 2011 Florida Legislature made significant changes to the Florida Retirement System. Effective July 1, 2011, members of the Florida Retirement System are required to make 3 percent pre-tax employee contributions. Florida Retirement System Pension Plan members with an effective retirement date on or after August 1, 2011, and service credit earned on or after July 1, 2011, will have an individual post-retirement cost-of-living adjustment calculated as a reduction from 3 percent using only the proportion of their years of service before July 1, 2011, to their total years of service. Members initially enrolled on or after July 1, 2011, have (1) vesting for benefits after eight years of service instead of six years; (2) retirement benefits calculated using the average of their highest eight years of salary instead of their highest five years; (3) normal retirement based on 35 years of service regardless of age or at age 65 and vested for all classes except Special Risk Class members who must have 30 years of service regardless of age or at age 60 and vested; and (4) no post-retirement cost-of-living adjustment.

The State of Florida issues a publicly available annual financial report that includes financial statements and required supplementary information for the FRS. This report contains the most recent actuarial valuation as of July 1, 2011. The report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000; or e-mailing Research & Education at [rep@dms.MyFlorida.com](mailto:rep@dms.MyFlorida.com), or calling toll free at 877-377-1737.

**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 percentage of payroll 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.

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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Florida Retirement System Pension Plan - Defined Benefit** (Continued)

**Funding Policy** (Continued)

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 Port’s Executive Director qualifies for the Senior Management Service Class (SMSC) membership and all other employees qualify for Regular Class membership. The Executive Director has not elected to participate.

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. Participating employers are required to make contributions based upon statewide contribution rates. Effective July 1, 2011, the contribution rates were amended by the Florida Legislature and for the first time included an employee contribution.

The contribution rates by job class for the Port’s employees as a percentage of covered payroll for the period from October 1, 2010 to June 30, 2011 and from July 1, 2011 to September 30, 2011, are as follows:

Class	10/01/10 through 06/30/11	07/01/11 through 09/30/11
Elected Officials	18.64%	14.14%
Senior Management Service Class	14.57%	9.27%
Regular Class	10.77%	7.91%
DROP	12.25%	4.42%

The above rates include the 1.11% HIS rate, the 0.03% administrative fee, and the 3.0% employee contribution, except for the DROP rate which does not include the 0.03% administrative fee or 3.0% employee contribution:

The Port’s combined contributions to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program for the fiscal years ending September 30, 2009, 2010, and 2011 were \$211,720, \$210,463, and \$222,377 respectively, which were equal to the required contributions. For the fiscal year ended September 30, 2011, employees made contributions of \$15,092, which were equal to the required contributions

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Florida Retirement System Investment Plan - Defined Contribution**

**Plan Description**

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 “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**

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. Participating employers are required to make contributions based upon statewide contribution rates. Effective July 1, 2011, the contribution rates were amended by the Florida Legislature and for the first time included an employee contribution.

The contribution rates by job class for the Port’s employees as a percentage of covered payroll for the period from October 1, 2010 to June 30, 2011 and from July 1, 2011 to September 30, 2011, are as follows

<u>Class</u>	<u>10/01/10 through 06/30/11</u>	<u>07/01/11 through 09/30/11</u>
Elected Officials	18.64%	14.14%
Senior Management Service Class	14.57%	9.27%
Regular Class	10.77%	7.91%
DROP	12.25%	4.42%

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Florida Retirement System Investment Plan - Defined Contribution**

**Funding Policy** (Continued)

The above rates include the 1.11% HIS rate, the 0.03% administrative fee, and the 3.0% employee contribution, except for the DROP rate, which does not include the 0.03% administrative fee or 3.0% employee contribution:

The Port's contribution to the Florida Retirement System Investment Plan for the fiscal year ended September 30, 2011 was \$41,149 which was equal to the required contribution. Employees made contributions of \$3,088 which were equal to the required contributions.

**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, 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, 2010 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.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN** (Continued)

**Retiree Health Insurance Subsidy Program**

**Funding Policy** (Continued)

The most recent actuarial valuation of the HIS program as a defined benefit plan was completed on July 1, 2010. It is anticipated that future valuations will be prepared on a biennial basis with the next valuation of the HIS Program scheduled for July 1, 2012.

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

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 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 post employment benefits (OPEB) under GASB 45.

**Plan Description**

The Port provides a single employer defined benefit health care plan to all of its employees. The plan allows its employees and their beneficiaries, at their own cost, to continue to obtain health, dental and other insurance benefits upon retirement. The benefits of the plan are in accordance with Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a separate financial report.

**Funding Policy**

The Port does not directly make a contribution to the plan on behalf of retirees. Retirees and their beneficiaries pay the same group rates as are charged to the Port for active employees by its healthcare provider. However, the Port's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits as an Employer Contribution, based upon an implicit rate subsidy. This offset equals the total age-adjusted costs paid by the Port or its active employees for coverage of the retirees and their dependents for the year net of the retiree's own payments for the year.

**Annual OPEB Cost and Net OPEB Obligation**

The Port's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC). The Port has elected to calculate the ARC and related information using the Alternative Measurement Method permitted under GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

**Annual OPEB Cost and Net OPEB Obligation** (Continued)

The following table presents the components of the Port’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Required contribution rate – employer	Pay-as-you-go
Required contribution rate – plan members	N/A
Annual required contribution (ARC)	\$ 13,117
Interest on net OPEB obligation	736
Adjustment to annual required contribution	<u>(1,002)</u>
Annual OPEB cost (expense)	12,851
Age adjusted contributions made	<u>(4,326)</u>
Change in net OPEB obligation	8,525
Net OPEB obligation (NOO) October 1, 2010	<u>21,038</u>
Net OPEB obligation (NOO) September 30, 2011	<u><u>\$ 29,563</u></u>

**Trend Information**

The Port’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current fiscal year and the two preceding years were as follows:

<u>Three-Year Trend Information</u>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/09	\$ 12,858	\$	0.0%	\$ 12,858
09/30/10	12,824	4,644	36.2	21,038
09/30/11	12,851	4,326	33.7	29,563

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

**Funded Status**

The funded status of the plan as of most recent actuarial valuation date was as follows:

Actuarial valuation date	09/30/09
Actuarial accrued liability (AAL)	\$ 76,862
Actuarial value of plan assets	\$
Unfunded actuarial accrued liability (UAAL)	\$ 76,872
Funded ratio	0.0%
Covered payroll	\$ 2,545,358
UAAL as a percentage of covered payroll	3.02%

**Funding Progress**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Port has contributed \$8,970 to the plan at this time.

**Actuarial Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Port and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Active plan members were assumed to retire at age 65. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on RP2000 Mortality Table for Males and Females Projected 10 years. The probability of remaining employed until the assumed retirement age and employees' expected working lifetimes were developed using standard turnover assumptions from GASB 45, paragraph 35b.

**PORT OF PALM BEACH DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

**Actuarial Methods and Assumptions** (Continued)

Health insurance premiums for 2008-2009 were used, and age appropriate premiums were developed from the average age of the population and a 4% premium aging factor as specified by GASB 45. The expected rate of increase in health insurance premiums used an initial rate of 9% and an ultimate rate of 4.7% for medical, an initial rate of 4% and an ultimate rate of 3% for dental, and an initial rate of 3% and an ultimate rate of 3% for vision.

The discount rate was assumed to be 3.5%. Since the Port has not contributed assets to the plan, the investment rate of return was assumed to be zero. The entry age cost method was used in the valuation. The unfunded actuarial accrued liability is amortized over a thirty year period as a level percent of projected payroll on an open basis.

**NOTE 9 - MAJOR CUSTOMERS**

The Port had revenue from two major customers providing more than 10% each of the Port facilities revenue during the fiscal year ended September 30, 2011. The Port facilities revenue from these customers were as follows:

Tropical Shipping USA, LLC/Birdsall, Inc.		\$ 4,428,199
Celebration Cruise Operator, Inc.	\$4,327,483	
Less Direct Marketing Support	<u>(2,888,943)</u>	
Net Celebration Cruise Operator, Inc.		\$ 1,438,540

**NOTE 10 - 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.

**PORT OF PALM BEACH DISTRICT**  
**Required Supplementary Information**  
**Other Postemployment Benefits**  
**September 30, 2011**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as % of Covered Payroll
09/30/09	\$	\$ 76,862	\$ 76,862	0.0%	\$ 2,545,358	3.02%

The above schedule presents data for one year because GASB Statement No. 45 was implemented during the fiscal year ended September 30, 2009. The Port is required to have an actuarial valuation every three years. The next valuation is scheduled for September 30, 2012. In future years, required trend data will be presented.

**PORT OF PALM BEACH DISTRICT**  
**Bond Amortization Schedule**  
**\$25,195,000 Revenue Refunding Bonds - Series 1999A**  
**September 30, 2011**

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
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
	<u>\$ 6,738,392</u>	<u>\$ 15,920,000</u>	<u>\$ 22,658,392</u>

**PORT OF PALM BEACH DISTRICT**  
**Bond Amortization Schedule**  
**\$9,576,835 Revenue Refunding Bonds - Series 2002**  
**September 30, 2011**

<u>Year Ending</u> <u>September 30</u>	<u>Interest</u>	<u>Retirement</u> <u>of Bonds</u>	<u>Total</u>
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
	<u>\$ 11,493,565</u>	<u>\$ 5,551,835</u>	<u>\$ 17,045,400</u>

**PORT OF PALM BEACH DISTRICT**  
**Bond Amortization Schedule**  
**\$13,090,044 Revenue Refunding Bonds - Series 2005**  
**September 30, 2011**

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
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
	<u>\$ 3,677,198</u>	<u>\$ 12,250,044</u>	<u>\$ 15,927,242</u>

**PORT OF PALM BEACH DISTRICT**  
**Bond Amortization Schedule**  
**\$10,139,551 Revenue Refunding Bonds - Series 2007**  
**September 30, 2011**

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
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
	<u>\$ 1,279,028</u>	<u>\$ 6,981,807</u>	<u>\$ 8,260,835</u>

**PORT OF PALM BEACH DISTRICT**  
**Bond Amortization Schedule**  
**Combined Revenue Bonds**  
**September 30, 2011**

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2012	\$ 1,661,186	\$ 2,536,172	\$ 4,197,358
2013	1,770,986	2,427,711	4,198,697
2014	1,456,939	2,738,233	4,195,172
2015	1,331,082	2,867,830	4,198,912
2016	1,198,402	3,002,415	4,200,817
2017	1,059,410	3,135,987	4,195,397
2018	914,149	3,288,503	4,202,652
2019	760,188	3,495,000	4,255,188
2020	601,413	3,655,000	4,256,413
2021	435,188	3,815,000	4,250,188
2022	1,951,776	2,396,724	4,348,500
2023	1,926,083	2,420,742	4,346,825
2024	1,889,919	2,455,831	4,345,750
2025	3,080,844	1,269,156	4,350,000
2026	3,150,618	1,199,382	4,350,000
	<u>\$ 23,188,183</u>	<u>\$ 40,703,686</u>	<u>\$ 63,891,869</u>

**PORT OF PALM BEACH DISTRICT**  
**Schedule of Port Facilities Revenues**  
**For the Fiscal Years Ended**  
**September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Wharfage	\$ 2,567,801	\$ 2,983,573
Rent	3,782,088	3,806,265
Dockage	1,474,044	1,498,641
Parking	838,664	631,122
Passenger wharfage		154,901
Net passenger charges (1)	1,380,003	895,953
Storage	106,742	98,307
Water	84,258	103,889
Line handling	38,400	35,600
Miscellaneous	121,848	222,751
Switching	308,428	351,396
Licenses	125,000	114,700
Identification badging	20,708	71,800
Terminal operating fee		26,391
Security fee	481,071	528,537
Cargo terminal fee	460,614	521,546
Harbor master fee	81,610	77,735
Vessel bunkers	44,640	37,290
<b>Total Port Facilities Revenue</b>	<b><u>\$ 11,915,919</u></b>	<b><u>\$ 12,160,397</u></b>
(1) - Gross passenger charges	\$ 4,268,946	\$ 2,616,634
Less: Direct marketing support	<u>(2,888,943)</u>	<u>(1,720,681)</u>
Net passenger charges	<b><u>\$ 1,380,003</u></b>	<b><u>\$ 895,953</u></b>

**PORT OF PALM BEACH DISTRICT**  
**Schedule of Operating Expenses**  
**For the Fiscal Years Ended**  
**September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>General expenses</b>		
Insurance and surety bonds	\$ 505,811	\$ 618,751
Retirement	231,625	224,152
Group insurance	617,606	675,180
Other benefits	13,187	25,984
Audit and other accounting services	80,322	88,089
Bad debt expense		18,809
Trustee fees	6,125	11,750
Consulting	37,921	172,674
Contingency	11,084	54,723
Miscellaneous	1,912	1,013
<b>Total general expenses</b>	<u><b>1,505,593</b></u>	<u><b>1,891,125</b></u>
<b>Engineering and maintenance</b>		
Salaries	472,026	508,058
Payroll taxes	34,495	37,279
Maintenance and repairs - buildings and grounds	322,978	444,437
Electricity	347,674	322,309
Water	443,283	374,350
Janitorial and trash removal	77,717	60,901
Maintenance and repairs - equipment	47,464	36,994
Engineering fees	12,000	13,000
Surveys and maps	28,862	1,525
Fuel and oil - port vehicles	37,266	36,393
Telephone	15,949	15,307
Uniforms	10,657	9,917
Shop maintenance and supplies	8,640	9,069
Miscellaneous	951	3,099
<b>Total engineering and maintenance</b>	<u><b>1,859,962</b></u>	<u><b>1,872,638</b></u>
<b>Security</b>		
Salaries	737,671	690,333
Payroll taxes	53,598	49,900
Contract services	803,506	796,988
Security equipment		5,958
Identification badges	27,850	80,421
Uniforms	6,736	5,906
Telephone	8,187	7,765
Maintenance and repairs	60,579	16,956
Miscellaneous	670	4,381
<b>Total security</b>	<u><b>1,698,797</b></u>	<u><b>1,658,608</b></u>

(Continued)

**PORT OF PALM BEACH DISTRICT**  
**Schedule of Operating Expenses (Continued)**  
**For the Fiscal Years Ended**  
**September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Administration</b>		
Salaries	\$ 912,771	\$ 836,200
Payroll taxes	65,261	60,491
Telephone	38,126	35,652
Maintenance and repairs	7,591	10,531
Computer maintenance	4,936	
Supplies, stationary and printing	21,494	23,227
Computer supplies	8,224	9,400
Postage	4,037	5,889
Training, seminars and consulting	24,980	23,998
Dues and subscriptions	720	245
Publications	6,228	6,708
Legal fees and expenses	168,101	114,945
Contingency	7,650	
Miscellaneous	7,686	9,073
<b>Total administration</b>	<u><b>1,277,805</b></u>	<u><b>1,136,359</b></u>
<b>Business development</b>		
Salaries	219,293	205,889
Payroll taxes	15,417	14,781
Retirement	22,785	21,735
Advertising and promotion	3,551	13,434
Trade development	21,878	25,720
Community relations	9,155	12,166
Travel	45,094	36,812
Dues and subscriptions	35,066	39,605
Publications	2,434	1,468
Miscellaneous	1,713	1,620
<b>Total business development</b>	<u><b>376,386</b></u>	<u><b>373,230</b></u>
<b>Operations</b>		
Salaries	203,597	207,524
Payroll taxes	14,903	15,176
Telephone	3,436	3,564
Contract services - parking		5,604
Cruise line transportation		7,048
Maintenance and repairs - train	36,825	18,447
Maintenance and repairs - track	9,524	34,651
Fuel and oil - train	21,954	19,958
Uniforms		59
Equipment rental	3,300	6,050
Miscellaneous	377	1,707
<b>Total operations</b>	<u><b>293,916</b></u>	<u><b>319,788</b></u>
<b>Amortization</b>	<u><b>108,473</b></u>	<u><b>92,245</b></u>
<b>Depreciation</b>	<u><b>4,297,853</b></u>	<u><b>4,233,539</b></u>
<b>Total operating expenses</b>	<u><u><b>\$ 11,418,785</b></u></u>	<u><u><b>\$ 11,577,532</b></u></u>

**PORT OF PALM BEACH DISTRICT**  
**Schedule of Revenues and Expenses**  
**For the Fiscal Years Ended**  
**September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Revenue</b>		
Port facilities	\$ 14,804,862	\$ 13,881,078
Less: Direct marketing support	(2,888,943)	(1,720,681)
<b>Net operating revenue</b>	<u><b>11,915,919</b></u>	<u><b>12,160,397</b></u>
<b>Expenses</b>		
General expenses	1,505,593	1,891,125
Engineering and maintenance	1,859,962	1,872,638
Security	1,698,797	1,658,608
Administration	1,277,805	1,136,359
Business development	376,386	373,230
Operations	293,916	319,788
<b>Operating expenses</b>	<u><b>7,012,459</b></u>	<u><b>7,251,748</b></u>
<b>Operating income (loss) before depreciation and amortization</b>	<b>4,903,460</b>	<b>4,908,649</b>
<b>Depreciation and amortization expense</b>	<u><b>4,406,326</b></u>	<u><b>4,325,784</b></u>
<b>Operating income (loss) after depreciation and amortization</b>	<b>497,134</b>	<b>582,865</b>
<b>Non-operating revenues (expenses)</b>		
Investment earnings	19,579	25,979
Grant revenue	340,138	622,815
Grant expense	(249,055)	(517,652)
Loss on disposition of assets	(5,075)	
Interest expense	(2,322,513)	(2,422,258)
<b>Total non-operating revenues (expenses)</b>	<u><b>(2,216,926)</b></u>	<u><b>(2,291,116)</b></u>
<b>Income (loss) before contributions</b>	<u><b>(1,719,792)</b></u>	<u><b>(1,708,251)</b></u>
<b>Capital contributions - grants</b>	<u><b>502,757</b></u>	<u><b>542,472</b></u>
<b>Change in net assets</b>	<u><u><b>\$ (1,217,035)</b></u></u>	<u><u><b>\$ (1,165,779)</b></u></u>

**PORT OF PALM BEACH DISTRICT**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended**  
**September 30, 2011**

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>Operating revenues</b>			
Wharfage	\$ 2,567,801	\$ 3,285,918	\$ (718,117)
Dockage	1,474,044	1,368,734	105,310
Parking	838,664	883,750	(45,086)
Passenger charges	4,268,946	4,496,475	(227,529)
Storage	106,742	109,826	(3,084)
Water	84,258	80,085	4,173
Line handling	38,400	32,850	5,550
Switching	308,428	335,358	(26,930)
Identification badging	20,708	60,744	(40,036)
Cargo terminal fee	460,614	493,475	(32,861)
Harbor Master Fees	81,610	99,020	(17,410)
Security Fee	481,071	496,998	(15,927)
Licenses and Permits	125,000	134,307	(9,307)
Miscellaneous Income/Labor	121,848	106,993	14,855
Rent	3,782,088	3,782,604	(516)
Vessel Bunkers	44,640	43,181	1,459
<b>Total operating revenues</b>	<u>14,804,862</u>	<u>15,810,318</u>	<u>(1,005,456)</u>
Less: Direct marketing support	(2,888,943)	(3,004,958)	116,015
<b>Net operating revenues</b>	<u>11,915,919</u>	<u>12,805,360</u>	<u>(889,441)</u>
 <b>Operating expenses</b>			
General expenses	1,505,593	1,507,468	(1,875)
Engineering and maintenance	1,859,962	1,855,172	4,790
Security	1,698,797	1,677,476	21,321
Administration	1,277,805	1,220,903	56,902
Business development	376,386	446,999	(70,613)
Operations	293,916	330,361	(36,445)
Amortization	108,473	90,000	18,473
Depreciation	4,297,853	4,389,075	(91,222)
<b>Total operating expenses</b>	<u>11,418,785</u>	<u>11,517,454</u>	<u>(98,669)</u>
 <b>Operating income (loss)</b>	<u>497,134</u>	<u>1,287,906</u>	<u>(790,772)</u>
 <b>Non-operating revenue (expenses)</b>			
Investment earnings	19,579	20,000	(421)
Grant revenue	340,138	82,877	257,261
Grant expense	(249,055)	-	(249,055)
Loss on disposition of assets	(5,075)	-	(5,075)
Interest expense	(2,322,513)	(2,351,844)	29,331
<b>Total non-operating revenue (expenses)</b>	<u>(2,216,926)</u>	<u>(2,248,967)</u>	<u>32,041</u>
 <b>Income (loss) before contributions</b>	<u>(1,719,792)</u>	<u>(961,061)</u>	<u>(758,731)</u>

**PORT OF PALM BEACH DISTRICT**  
**Schedule of Operating Statistics**  
**For the Fiscal Years Ended**  
**September 30, 2011 and 2010**  
**Unaudited**

	<u>2011</u>	<u>2010</u>	<u>Percent Change</u>
<b>CARGO TONNAGE</b>			
<b>General Cargo</b>			
Container	949,444	987,620	(3.87%)
Break-bulk	67,341	69,174	(2.65%)
Relay	56,855	69,814	(18.56%)
<b>Sub-Total</b>	<u>1,073,640</u>	<u>1,126,608</u>	(4.70%)
<b>Bulk and Dry Cargo</b>			
Asphalt	88,522	57,561	53.79%
Diesel	50,706	60,886	(16.72%)
Fuel Oil	136,575	452,684	(69.83%)
Miscellaneous	61,619	18,159	239.33%
Molasses	186,432	171,456	8.73%
Sugar	413,254	660,992	(37.48%)
<b>Sub-Total</b>	<u>937,108</u>	<u>1,421,738</u>	(34.09%)
<b>TOTAL ALL CARGO</b>	<u>2,010,748</u>	<u>2,548,346</u>	(21.10%)
Inbound	103,088	100,866	2.20%
Outbound	103,449	105,719	(2.15%)
<b>TOTAL TEUs</b>	<u>206,537</u>	<u>206,585</u>	(0.02%)
Inbound	6,395	7,703	(16.98%)
Outbound	6,403	7,624	(16.02%)
<b>TOTAL RAIL CARS</b>	<u>12,798</u>	<u>15,327</u>	(16.50%)
<b>VESSELS</b>	<u>1,320</u>	<u>1,467</u>	(10.02%)
<b>PASSENGERS</b>	<u>303,886</u>	<u>285,043</u>	6.61%

**PORT OF PALM BEACH DISTRICT**  
**Net Assets**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

Year Ending September 30	Invested in Capital Assets, net of related debt	(1) Restricted	Unrestricted	Total
2006	\$ 72,091,549	\$14,919,000	\$ 7,655,459	\$ 94,666,008
2007	75,044,702	13,183,712	8,395,249	96,623,663
2008	(2) 70,379,263	9,051,841	7,077,226	86,508,330
2009	68,128,082	8,506,428	6,618,653	83,253,163
2010	67,277,388	7,924,528	6,885,468	82,087,384
2011	66,302,448	7,240,888	7,327,013	80,870,349

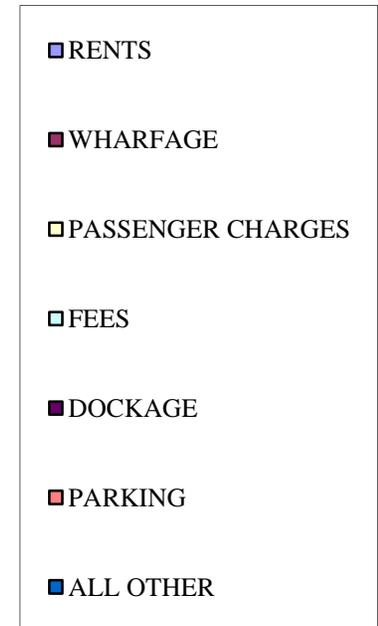
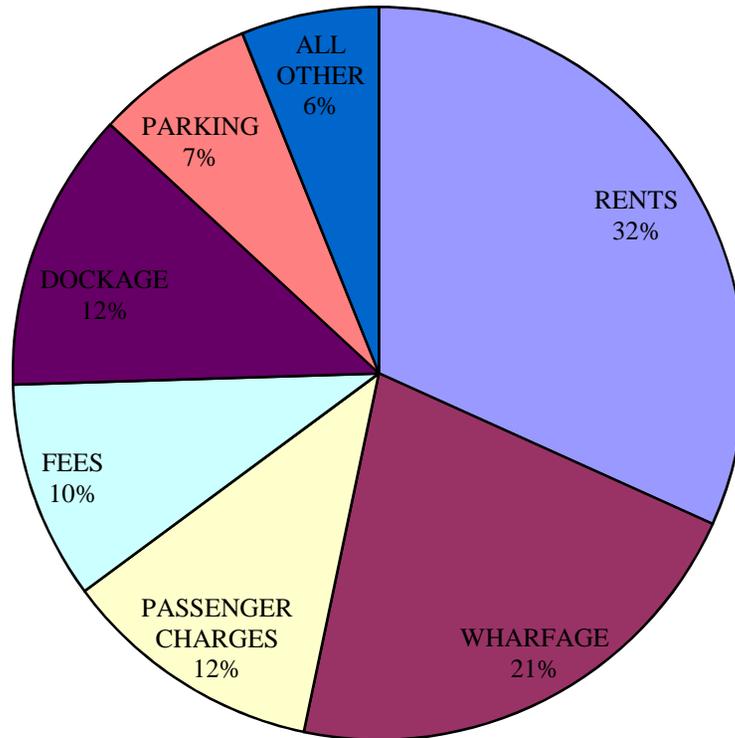
(1) Restricted for debt service, renewal and replacement, business development, capital improvements, compensating balances, and customer deposits.

(2) Beginning net assets were restated due to prior period errors that were made in accounting for the capitalization and depreciation of the Skypass Bridge and land transfers.

**PORT OF PALM BEACH DISTRICT**  
**Operating Revenues by Source**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Wharfage	\$ 3,278,944	\$ 3,117,086	\$ 2,849,117	\$ 2,554,546	\$ 2,983,573	\$ 2,567,801
Rent	3,679,084	3,419,133	3,471,814	3,828,131	3,806,265	3,782,088
Dockage	1,865,320	1,652,796	1,179,018	1,276,999	1,498,641	1,474,044
Parking	446,306	599,402	193,691	260,731	631,122	838,664
Passenger wharfage	965,370	883,548	672,378	542,039	154,901	
Net passenger charges					895,953	1,380,003
Storage	183,422	233,698	234,855	104,866	98,307	106,742
Water	157,853	160,524	145,322	147,423	103,889	84,258
Line handling	80,015	78,975	72,350	51,600	35,600	38,400
Miscellaneous	110,590	134,981	152,242	105,183	222,751	121,848
Switching	319,815	382,950	442,195	350,235	351,396	308,428
Licenses	71,550	68,000	78,000	87,600	114,700	125,000
Identification badging	232,008	286,963	164,782	76,928	71,800	20,708
Terminal operating fee	185,072	218,604	157,830	10,850	26,391	
Security fee	805,206	764,598	651,655	607,676	528,537	481,071
Cargo terminal fee	450,413	470,749	411,588	397,558	521,546	460,614
Harbor master fee	71,890	67,165	54,110	68,415	77,735	81,610
Vessel bunkers	48,925	37,475	28,200	27,290	37,290	44,640
<b>Total</b>	<b>\$ 12,951,783</b>	<b>\$ 12,576,647</b>	<b>\$ 10,959,147</b>	<b>\$ 10,498,070</b>	<b>\$ 12,160,397</b>	<b>\$ 11,915,919</b>

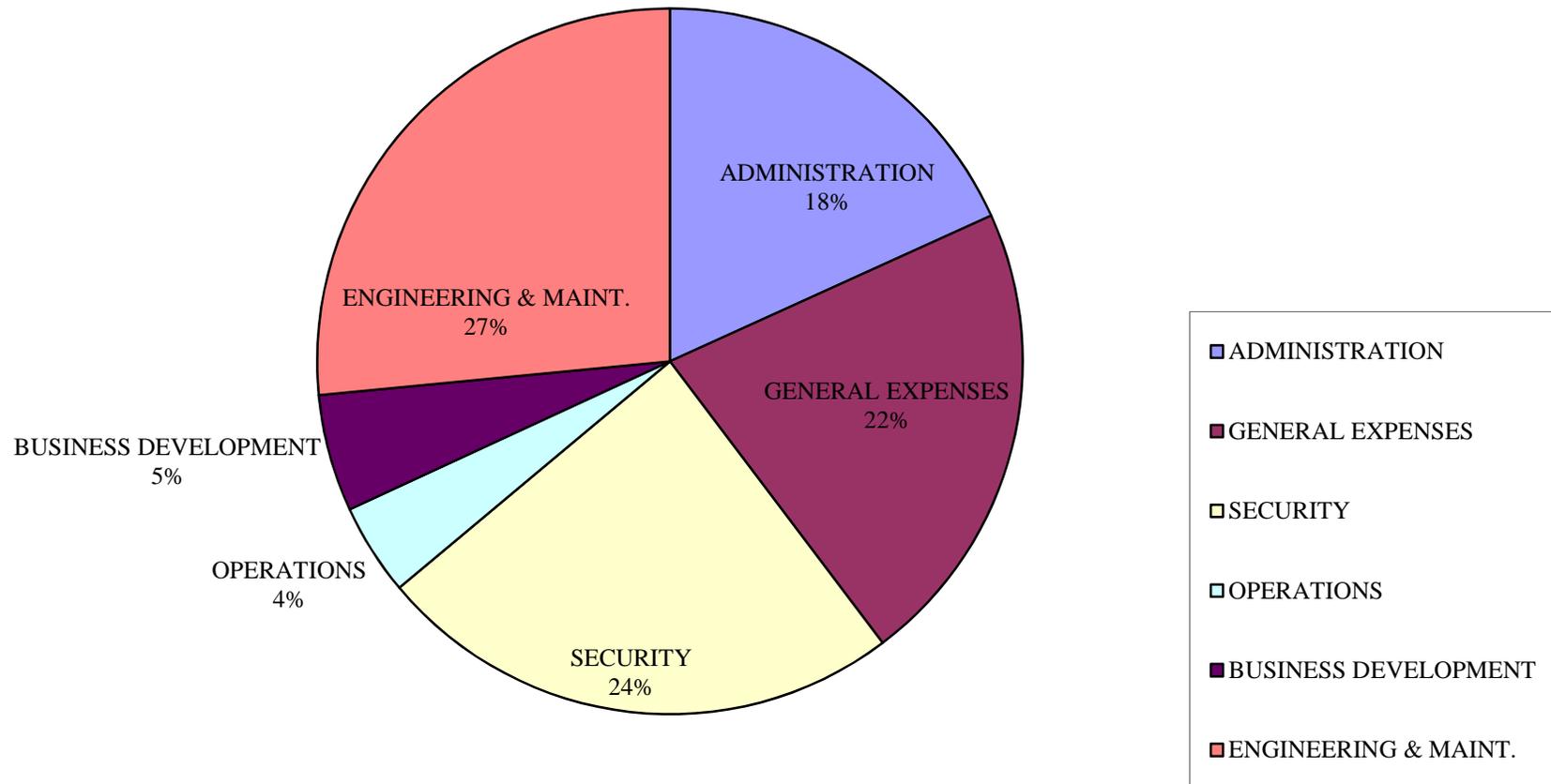
**PORT OF PALM BEACH DISTRICT  
Operating Revenues  
Fiscal Year Ended September 30, 2011  
Unaudited**



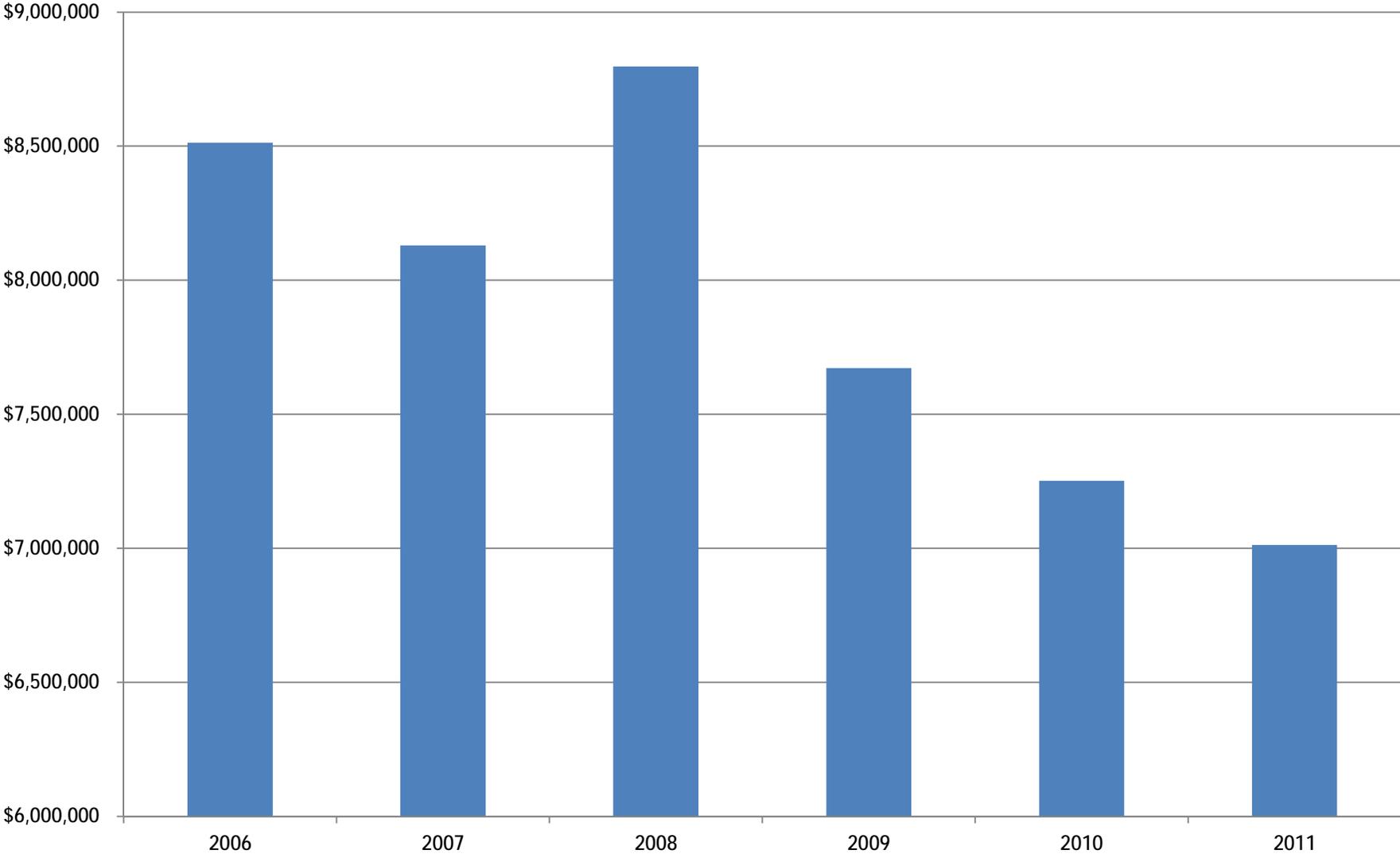
**PORT OF PALM BEACH DISTRICT**  
**Operating Expenses**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General expenses	\$ 2,046,673	\$ 1,920,959	\$ 1,917,359	\$ 1,828,148	\$ 1,891,125	\$ 1,505,593
Engineering and maintenance	2,353,542	1,894,295	2,530,948	1,964,388	1,872,638	1,859,962
Security	2,050,457	1,877,450	1,862,794	1,707,248	1,658,608	1,698,797
Administration	1,288,250	1,335,229	1,219,497	1,213,234	1,136,359	1,277,805
Business development	452,260	431,742	637,655	428,996	373,230	376,386
Operations	321,395	670,308	628,559	530,527	319,788	293,916
<b>Subtotal</b>	<u>8,512,577</u>	<u>8,129,983</u>	<u>8,796,812</u>	<u>7,672,541</u>	<u>7,251,748</u>	<u>7,012,459</u>
<b>Percentage Changes - Year to Year</b>	N/A	-4.49%	8.20%	-12.78%	-5.48%	-3.30%
<b>Percentage Changes - Cumulative</b>	N/A	-4.49%	4.71%	10.95%	17.39%	21.39%
Amortization	112,009	112,561	97,034	89,535	92,245	108,473
Depreciation	3,921,769	4,011,840	3,660,573	4,181,306	4,233,539	4,297,853
<b>Total</b>	<u><u>\$ 12,546,355</u></u>	<u><u>\$ 12,254,384</u></u>	<u><u>\$ 12,554,419</u></u>	<u><u>\$ 11,943,382</u></u>	<u><u>\$ 11,577,532</u></u>	<u><u>\$ 11,418,785</u></u>

**PORT OF PALM BEACH DISTRICT**  
**Operating Expenses**  
**Fiscal Year Ended September 30, 2011**  
**Unaudited**



**PORT OF PALM BEACH DISTRICT**  
**Operating Expenses Before Depreciation & Amortization**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**



**PORT OF PALM BEACH DISTRICT**  
**Non-Operating Revenues (Expenses)**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Investment earnings	\$ 1,085,833	\$ 1,273,597	\$ 555,819	\$ 98,395	\$ 25,979	\$ 19,579
Grant revenue	556,630	839,574	836,505	252,057	622,815	340,138
Grant expense					(517,652)	(249,055)
Loss on disposition of assets	(307,109)	(285,493)	(2,012)	(20,889)		(5,075)
Contingency gain from insurance proceeds		27,059				
Radiation portal monitor transfers		(898,264)	(453,559)	(11,500)		
Road improvement transfers	(26,171)	-	-	-		
Interest expense	(2,865,855)	(2,806,939)	(2,473,680)	(2,504,938)	(2,422,258)	(2,322,513)
<b>Total</b>	<b><u>\$ (1,556,672)</u></b>	<b><u>\$ (1,850,466)</u></b>	<b><u>\$ (1,536,927)</u></b>	<b><u>\$ (2,186,875)</u></b>	<b><u>\$ (2,291,116)</u></b>	<b><u>\$ (2,216,926)</u></b>

**PORT OF PALM BEACH DISTRICT**  
**Changes in Net Assets**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Operating Income (Loss)	\$ 405,428	\$ 669,768	\$(1,595,272)	\$(1,445,312)	\$ 582,865	\$ 497,134
Net Non-Operating Revenue (Expense)	<u>(1,556,672)</u>	<u>(1,850,466)</u>	<u>(1,536,927)</u>	<u>(2,186,875)</u>	<u>(2,291,116)</u>	<u>(2,216,926)</u>
Income (Loss) before Contributions	(1,151,244)	(1,180,698)	(3,132,199)	(3,632,187)	(1,708,251)	(1,719,792)
Capital Contributions - Grants	<u>2,183,656</u>	<u>3,855,281</u>	<u>9,090,868</u>	<u>377,020</u>	<u>542,472</u>	<u>502,757</u>
<b>Change in Net Assets</b>	<b><u><u>\$1,032,412</u></u></b>	<b><u><u>\$2,674,583</u></u></b>	<b><u><u>\$ 5,958,669</u></u></b>	<b><u><u>\$(3,255,167)</u></u></b>	<b><u><u>\$(1,165,779)</u></u></b>	<b><u><u>\$(1,217,035)</u></u></b>

**PORT OF PALM BEACH DISTRICT**  
**Operating Statistics**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>CARGO TONNAGE</b>						
<b>General Cargo</b>						
Container	1,138,130	1,156,025	1,205,529	1,057,745	1,057,434	1,006,299
Break-bulk	161,539	129,194	113,491	59,990	69,174	67,341
<b>Sub-Total</b>	<u>1,299,669</u>	<u>1,285,219</u>	<u>1,319,020</u>	<u>1,117,735</u>	<u>1,126,608</u>	<u>1,073,640</u>
<b>Bulk and Dry Cargo</b>						
Asphalt	35,317	61,634	39,265	85,631	57,561	88,522
Cement	193,349	130,711	125,665	10,829		
Petroleum	1,261,868	958,497	773,113	385,137	513,570	187,281
Miscellaneous	0	20,247		10,800	18,159	61,619
Molasses	111,687	159,388	193,896	163,040	171,456	186,432
Sugar	374,780	607,443	425,796	591,116	660,992	413,254
<b>Sub-Total</b>	<u>1,977,001</u>	<u>1,937,920</u>	<u>1,557,735</u>	<u>1,246,553</u>	<u>1,421,738</u>	<u>937,108</u>
<b>TOTAL ALL CARGO</b>	<u>3,276,670</u>	<u>3,223,139</u>	<u>2,876,755</u>	<u>2,364,288</u>	<u>2,548,346</u>	<u>2,010,748</u>
<b>TEUs</b>	<u>244,004</u>	<u>257,507</u>	<u>244,638</u>	<u>216,403</u>	<u>206,585</u>	<u>206,537</u>
<b>RAIL CARS</b>	<u>10,409</u>	<u>10,985</u>	<u>19,813</u>	<u>16,462</u>	<u>15,327</u>	<u>12,798</u>
<b>VESSELS</b>	<u>2,462</u>	<u>2,831</u>	<u>2,168</u>	<u>1,969</u>	<u>1,467</u>	<u>1,320</u>
<b>PASSENGERS</b>	<u>520,557</u>	<u>566,408</u>	<u>424,204</u>	<u>349,800</u>	<u>285,043</u>	<u>303,886</u>

**PORT OF PALM BEACH DISTRICT**  
**Revenue Bond Coverage**  
**Fiscal Years Ended September 30, 2006 through 2011**  
**Unaudited**

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Gross Revenues	(1)	\$ 14,037,616	\$ 13,850,244	\$ 11,514,966	\$ 10,596,465	\$ 12,186,376	\$ 11,935,498
Operating Expenses	(2)	8,512,577	8,129,983	8,796,812	7,672,541	7,251,748	7,012,459
Net Revenues	(3)	<u>5,525,039</u>	<u>5,720,261</u>	<u>2,718,154</u>	<u>2,923,924</u>	<u>4,934,628</u>	<u>4,923,039</u>
Maximum Annual Debt Service		4,350,000	4,350,000	4,350,000	4,350,000	4,350,000	4,350,000
Required Coverage		110%	110%	110%	110%	110%	110%
Debt Service Requirement		<u>4,785,000</u>	<u>4,785,000</u>	<u>4,785,000</u>	<u>4,785,000</u>	<u>4,785,000</u>	<u>4,785,000</u>
Excess (Deficiency)		<u>\$ 740,039</u>	<u>\$ 935,261</u>	<u>\$ (2,066,846)</u>	<u>\$ (1,861,076)</u>	<u>\$ 149,628</u>	<u>\$ 138,039</u>
<b>Coverage</b>		<b>127%</b>	<b>132%</b>	<b>62%</b>	<b>67%</b>	<b>113%</b>	<b>113%</b>

- 
- (1) Gross Revenues includes operating revenues and investment earnings.  
(2) Operating Expenses do not include depreciation and amortization.  
(3) Net revenues are gross revenues, after deduction only of operating expenses.



# NOWLEN, HOLT & MINER, P.A.

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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*

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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 30, 2011, and have issued our report thereon dated May 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the Port of Palm Beach District in the accompanying Management Letter in Accordance with the Rules of the Auditor General dated May 4, 2012.

This report is intended solely for the information and use of The Port of Palm Beach District's management, the Board of Commissioners, others within the entity, the Florida Auditor General, 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  
May 4, 2012



# NOWLEN, HOLT & MINER, P.A.

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## MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

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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 30, 2011, and have issued our report thereon dated May 4, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's 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*. Disclosures in that report, which is dated May 4, 2012, should be considered in conjunction with this Management Letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local government entity audits in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule.

### **PRIOR YEAR COMMENTS**

Rules of the Auditor General require 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.

There were no prior year comments that needed to be addressed by management.

## CURRENT YEAR COMMENTS

### Investment of Public Funds

Rules of the Auditor General require our audit to include a review of the Port's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, the results of our procedures did not disclose any instances of noncompliance with Section 218.415, Florida Statutes.

### Recommendations to Improve Financial Management

Rules of the Auditor General require that we address in the Management Letter any recommendations to improve financial management. In connection with our audit for the fiscal year ended September 30, 2011, we noted the following item.

#### **Finding 2011-1 Records Retention**

**Condition:** During our testing of disbursements, we noted that supporting documentation for vendor invoices from the vendor providing security services to the Port were not retained as required by applicable regulations.

**Criteria:** *General Records Schedule GS1-SL For State and Local Government Agencies* established by the Florida Department of State pursuant to sections 119.011(11) and 257.36, Florida Statutes requires the record copy of vendor invoices and other disbursement records be retained for five fiscal years.

**Effect:** Noncompliance with records retention requirements.

**Recommendation:** We recommend that the Port review its records retention policies and implement procedures to facilitate compliance with applicable records retention requirements.

**Management Response:** We agree with the auditor's finding and have implemented procedures to comply with the applicable records retention requirements.

### Violations of Provisions of Contracts or Grant Agreements, or Abuse

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements or abuse, that have occurred, or are likely to have occurred, 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 30, 2011, we did not have any such findings.

### *Matters Inconsequential to the Financial Statements*

Rules of the Auditor General provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit for the fiscal year ended September 30, 2011, we did not have any such findings.

### *Oversight Unit and Component Units*

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, but 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 subdivision 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*

Rules of the Auditor General require 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), Florida Statutes.

### *Annual Financial Report*

Rules of the Auditor General require that we determine whether the annual financial report for the Port of Palm Beach District 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, 2011. In connection with our audit, we noted that the two reports were in substantial agreement.

Financial Condition Assessment Procedures

Rules of the Auditor General require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures as of the fiscal year end. 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 matters that are required to be reported.

Single Audits

The Port expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2011. Consequently, the Port was not required to have a federal single audit or a state single audit.

Pursuant to Chapter 119, Florida Statutes, this Management Letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this Management Letter is intended solely for the information of the management of the Port of Palm Beach, members of the Port of Palm Beach Commission, the Florida Auditor General, 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 & Mimer, P.A.*

West Palm Beach, Florida  
May 4, 2012