

PORT OF PALM BEACH DISTRICT
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITORS' REPORT THEREON
SEPTEMBER 30, 2010

PORT OF PALM BEACH DISTRICT
SEPTEMBER 30, 2010

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SEPTEMBER 30, 2010

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PORT OF PALM BEACH DISTRICT

**PRINCIPAL OFFICIALS
AS OF SEPTEMBER 30, 2010**

PORT BOARD MEMBERS

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

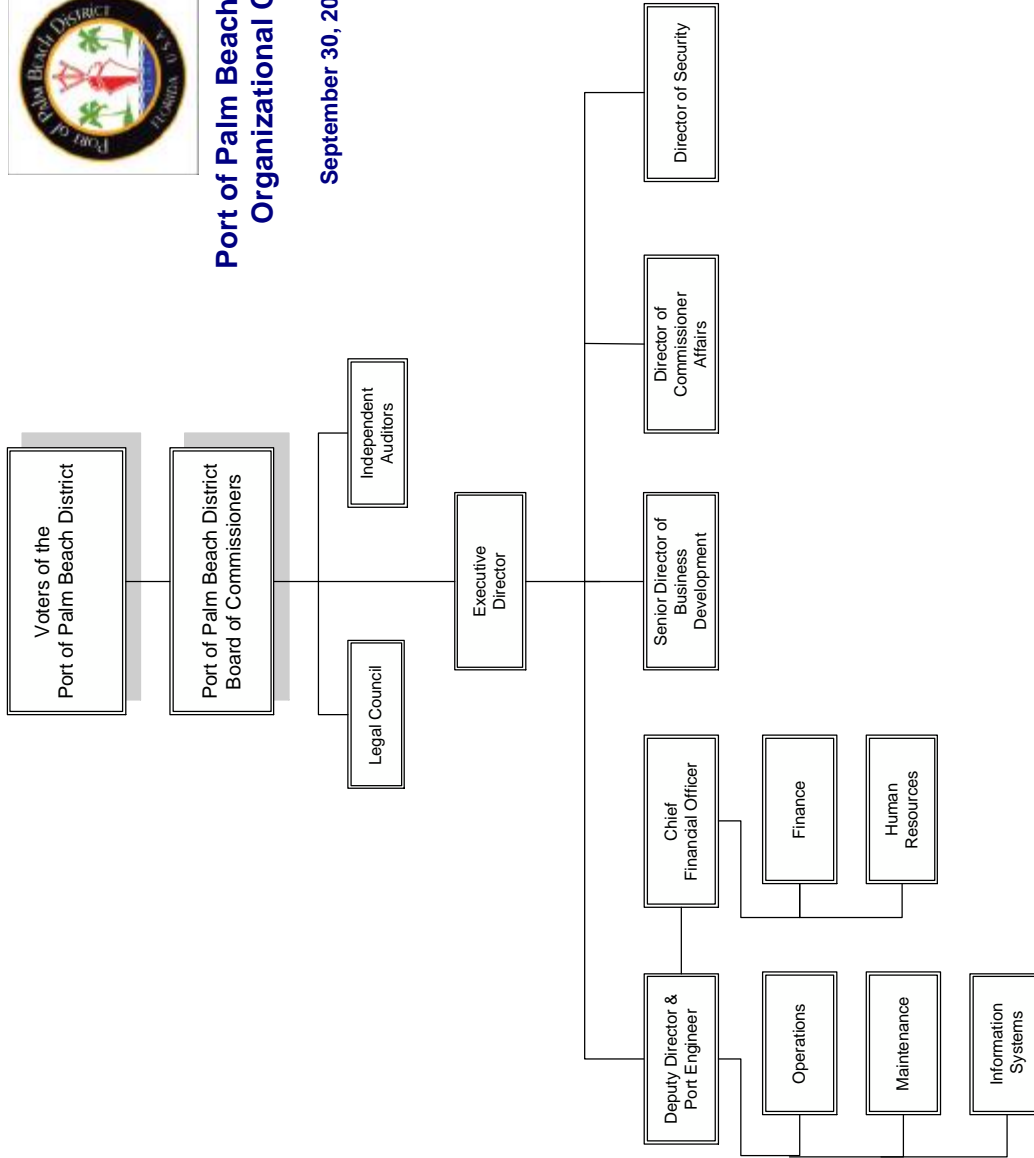
PORT STAFF

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



Port of Palm Beach District Organizational Chart

September 30, 2010





NOWLEN, HOLT & MINER, P.A.

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ROBERT W. HENDRICK, JR., CPA
JANET R. BARBOVICH, CPA

KATHLEEN A. MINER, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, CFPP, CPA
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INDEPENDENT AUDITORS' REPORT

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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, 2010, 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, 2010, 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 April 15, 2011 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 47 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 48 through 58, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplementary information on pages 48 through 57 and the schedule of expenditures of federal awards 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 audit 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 58 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 & Mimer, P.A.

West Palm Beach, Florida
April 15, 2011

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, 2010 and 2009. 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 \$82,087,384 (*net assets*). Of this amount, \$6,885,475 (*unrestricted net assets*) may be used to meet the Port's ongoing obligations to creditors.
- The Port's total net assets decreased by \$1,165,779. This decrease consists of \$1,708,251 of loss before contributions, offset by \$542,472 of capital contributions.
- At the end of the current fiscal year, unrestricted net assets were 95% of cash 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 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 – 46 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 48 - 59 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, 2010 and 2009 by \$82,087,384 and \$83,253,163, respectively.

The following table reflects the condensed statement of net assets:

Port of Palm Beach District's Net Assets

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 19,138,688	\$ 19,529,102
Capital assets, net	108,917,581	111,968,910
Total assets	<u>128,056,269</u>	<u>131,498,012</u>
Current liabilities	3,733,575	4,193,426
Noncurrent liabilities	42,235,310	44,051,423
Total liabilities	<u>45,968,885</u>	<u>48,244,849</u>
Invested in capital assets, net of related debt	67,277,388	68,128,082
Restricted	7,924,521	8,506,428
Unrestricted	6,885,475	6,618,653
Total net assets	<u>\$ 82,087,384</u>	<u>\$ 83,253,163</u>

Current and other assets decreased by approximately \$0.40 million as a result of a \$0.30 million decrease in cash and cash equivalents that was primarily due to the purchase of capital assets and debt payments on the revenue bonds which exceeded the cash generated by the Port's operations. The remaining \$0.10 million decrease was amortization of deferred charges.

The decrease in Current Liabilities of approximately \$0.45 million is the result of a \$0.25 million decrease in customer security deposits. These were primarily Oceans Development's customer security deposits applied to their outstanding receivables balance as a result of their bankruptcy. Also, deferred revenue decreased by \$0.15 million and other liabilities by \$0.05 million.

The decrease in Noncurrent Liabilities of approximately \$1.82 million is the result of the principal payments of \$2.33 million on the revenue bonds, being partially offset by an increase in accreted interest payable of \$0.43 million and \$0.08 million in other noncurrent liabilities.

Net Assets



By far the largest portion of the Port's net assets as of September 30, 2010 and 2009 (82 percent) 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, 2010 and 2009 (10 percent) 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 2010, the Port's unrestricted net assets were \$6,885,475 an increase of \$266,822 from FY 2009.

The Port's total net assets decreased by \$1,165,779 during FY 2010. Of this amount, \$582,865 in additions is operating income; \$131,142 of additions is net operating grants and investment earnings, and \$2,422,258 of deletions is interest expense which outstripped the operating income, grants and investment earnings. The remaining \$542,472 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>2010</u>	<u>2009</u>
Operating revenues:		
Port facilities	\$ 12,160,397	\$ 10,498,070
Non-operating revenues:		
Investment earnings	25,979	98,395
Grant revenue	622,815	252,057
Total non-operating revenues	<u>648,794</u>	<u>350,452</u>
Total revenues	<u>12,809,191</u>	<u>10,848,522</u>
Operating expenses:		
General expenses	1,891,125	1,828,148
Engineering and maintenance	1,872,638	1,964,388
Security	1,658,608	1,707,248
Administration	1,136,359	1,213,234
Business development	373,230	428,996
Operations	319,788	530,527
Sub-total operating expenses	<u>7,251,748</u>	<u>7,672,541</u>
<i>Income before depreciation and amortization</i>	<i>5,557,443</i>	<i>3,175,981</i>
Depreciation and amortization	<u>4,325,784</u>	<u>4,270,841</u>
Total operating expenses	<u>11,577,532</u>	<u>11,943,382</u>
Non-operating expenses:		
Grant expense	517,652	
Other		32,389
Interest	2,422,258	2,504,938
Total non-operating expenses	<u>2,939,910</u>	<u>2,534,327</u>
Total expenses	<u>14,517,442</u>	<u>14,477,709</u>
Loss before contributions	(1,708,251)	(3,629,187)
Capital contributions - grants	<u>542,472</u>	<u>377,020</u>
Change in net assets	(1,165,779)	(3,255,167)
Net assets - beginning	<u>83,253,163</u>	<u>86,508,330</u>
Net assets - ending	<u>\$ 82,087,384</u>	<u>\$ 83,253,163</u>

Key elements of the increase in net assets for the fiscal year ended September 30, 2010 are as follows.

- Operating Revenues increased by approximately \$1.66 million or approximately 16%. This is due primarily to the arrival of the Bahamas Celebration, a multiday passenger cruise vessel, which began operations in mid March 2010, which more than offset the loss of the Palm Beach Princess, a day cruise gaming vessel, which filed for bankruptcy and ceased operations in February 2010. In addition, cargo related revenue increased due primarily to an 8% increase in cargo tonnage and increases in fees and charges for services from Tariff # 17 that was in effect for all of FY 2010.

On March 15, 2010, Celebration Cruise Operator, Inc., (dba Bahamas Celebration) began operations 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 \$2.61 million from over 187 thousand passengers and the Ports contribution to the Bahamas Celebration's sales and marketing effort was approximately \$1.72 million for FY 2010. This agreement with Bahamas Celebration promises to enhance future revenues.

Wharfage and cargo related revenue increased by approximately \$0.56 million or 15%, primarily as a result of increases in shipments of fuel oil, molasses and sugar which offset declines in asphalt and diesel shipments. Container (TEU) volume and rail cars remained relatively flat during FY 2010.

Dockage and related revenue increased by approximately \$0.20 million or 13%, primarily the result of additional dockage days related to the berthing of mega-yachts for repairs, additional fuel oil, molasses and sugar vessels, and yacht shipments which offset declines in asphalt and diesel vessels and the loss of the Palm Beach Princess.

Rent, a significant revenue source, remained relatively flat during FY 2010

Parking fees increased by approximately \$0.37 million or 142%, primarily as a result of the Bahamas Celebration, which accounted for new parking fees of approximately \$0.48 million. The Palm Beach Princess only generated \$0.10 million in parking fees as a result of ceasing operations in February 2010. The remaining parking fees of \$0.05 million were from tenants and independent truckers.

Passenger wharfage and related revenue from the Palm Beach Princess decreased by approximately \$0.50 million or 68%, as noted above.

The remaining operating revenues which consist of licenses, permits, identification badging and miscellaneous income increased by approximately \$0.14 million or 53%.

The Schedule of Port Facilities Revenues can be found on page 53 of this report.

- Investment Earnings fell by over \$72 thousand as interest rates remained at historical lows as dramatic declining market conditions continued.

- Operating Grant Income increased by over \$370 thousand, due primarily to the Port receiving \$517 thousand 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.
- Operating Expenses before depreciation and amortization decreased by approximately \$421 thousand or 5%. 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. These changes had a full year effect in FY 2010 and continue to have a positive effect in keeping expenses under control. Operating Expense containment continues to be a priority for Port Management as the economy is slow to recover.

Salaries and benefits continue to represent the largest portion of the Port's operating expenses before depreciation and amortization at approximately 50%. Salaries and benefits decreased across all departments by approximately \$162 thousand or 4%.

General expense (excluding personnel costs) increased by approximately \$44 thousand or 5%, due primarily to consulting costs general insurance deductibles for claims settled by the Port's underwriter.

Engineering and maintenance expense (excluding personnel costs) decreased by approximately \$109 thousand or 8%, due primarily to no activity for the Dredging Study being conducted by the Army Corp. of Engineers. This is a one-time study to determine the maximum depth potential of the Lake Worth Inlet and is near completion. Additionally, lower electric costs were offset by the increase in water cost caused by the Bahamas Celebration operating usage.

Operations expense (excluding personnel costs) decreased by approximately \$137 thousand or 59%, primarily the result of eliminating the railroad contract, as noted above and the reduced costs as a result of the loss of the Palm Beach Princess.

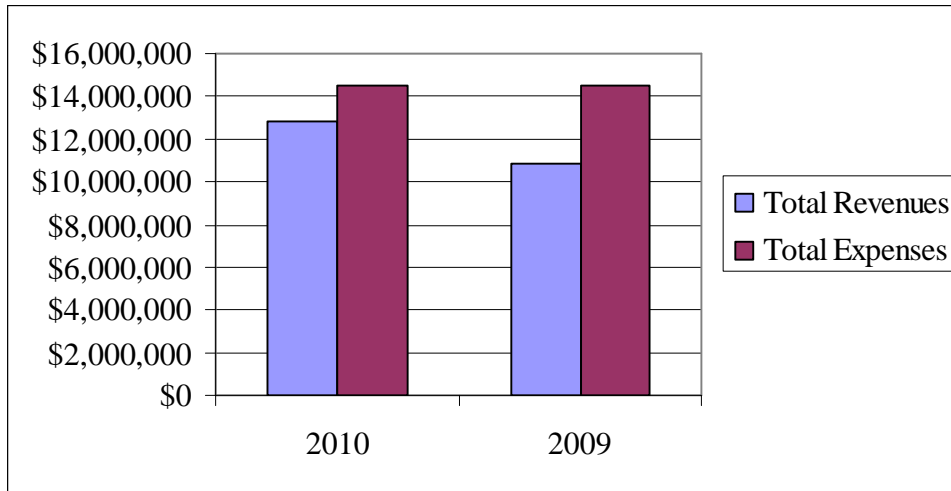
There were no significant changes in security, administration and business development expenses except for reductions in salaries and benefits, as these expenses (excluding personnel costs) decreased by approximately \$57 thousand or 4% in various areas at insignificant amounts.

Depreciation and amortization expense increased by approximately \$55 thousand or 1%, primarily the result of additional security equipment and improvement purchases that were funded through the FEMA Port Security Grant Program.

The Schedule of Operating Expenses can be found on pages 54 - 55 of this report.

- Capital contributions - grants increased by over \$165 thousand, due primarily to the Port receiving \$454 thousand from the FEMA Port Security Grant Program for various security equipment and improvements. There were no major infrastructure projects during FY 2010.

Total Revenues and Expenses



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets: The Port's capital assets as of September 30, 2010 amounted to approximately \$108.9 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 2010 was \$3.0 million. This was attributable to an increase in Accumulated Depreciation of \$4.2 million and offset by a \$1.2 million increase in Capital Assets, of which the majority were Port security equipment and improvements and cruise terminal equipment, furniture and fixtures and improvements.

The Port has delayed various capital programs to conserve cash as a result of the decline in the economy.

Construction-in-progress projects total approximately \$1.18 million as of September 30, 2010 and include the following projects:

- Cruise terminal remodel
- Slip # 3 Improvement
- Security Port Watch
- South Gate
- MOC-Buildings & Grounds

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>2010</u>	<u>2009</u>
Land	\$ 26,866,009	\$ 26,866,009
Buildings and improvements	41,975,670	43,387,422
Slips and improvements	14,336,127	14,813,861
Other improvements	18,072,549	19,557,300
Wharf and loading ramps	4,949,841	5,119,737
Machinery and equipment	1,305,043	1,243,557
Autos and trucks	81,991	121,039
Furniture and fixtures	151,996	55,739
Construction in progress	1,178,355	804,246
Total net assets	<u>\$ 108,917,581</u>	<u>\$ 111,968,910</u>

DEBT ADMINISTRATION

Long-term debt: The Port had outstanding revenue bonds of approximately \$43.1 million as of September 30, 2010. Of this amount approximately \$2.4 million is current and will mature by September 1, 2011. There were no new bonds issued during FY2010. 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 2010, the Port meets 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>2010</u>	<u>2009</u>
Revenue bonds payable	\$ 43,126,805	\$ 45,456,143
Less deferred amounts:		
For issuance discounts	(604,166)	(650,444)
Loss on refundings	(882,442)	(964,871)
Total revenue bonds payable	<u>\$ 41,640,197</u>	<u>\$ 43,840,828</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Port of Palm Beach District has, within competitive constraints and dramatic declining market conditions, raised tariff rates in FY 2011 with the goal of increasing operating revenues, and are continuing an aggressive marketing campaign to both solicit new business and grow current business. The Port has been successful in securing a multi-day cruise line, Celebration Cruise Operator, Inc. (dba Bahamas Celebration) that began operations from the Port on March 15, 2010. As such, a full year of operations by the Bahamas Celebration will significantly increase net revenues and cash flows in FY 2011.

PORT OF PALM BEACH DISTRICT
Statement of Net Assets
September 30, 2010

ASSETS

	2010
Current assets:	
Cash and cash equivalents	\$ 6,027,223
Accounts receivable (net of allowance for uncollectables of \$100,000)	661,789
Due from other governments	21,552
Prepaid items	76,733
Restricted assets:	
Cash and cash equivalents	11,154,920
Grants receivable	186,449
Accounts receivable	3,186
Prepaid items	103,182
Total current assets	18,235,034
 Noncurrent assets:	
Deferred charges	6,461
Unamortized bond issue costs	727,655
Restricted deferred charges	169,538
Total other noncurrent assets	903,654
Capital assets:	
Land and land rights	26,866,009
Buildings and improvements	60,180,530
Slips and improvements	22,388,604
Other improvements	33,070,067
Wharf and loading ramps	7,798,154
Machinery and equipment	3,170,799
Autos and trucks	497,648
Furniture and fixtures	282,119
Construction in progress	1,178,355
Less accumulated depreciation	(46,514,704)
Total capital assets (net of accumulated depreciation)	108,917,581
Total noncurrent assets	109,821,235
 Total assets	 128,056,269

LIABILITIES

	<u>2010</u>
Current liabilities	
Accounts payable and accrued expenses	\$ 681,536
Deferred revenue	155,791
Compensated absences payable	218,697
Payable from restricted assets:	
Customer deposits	15,000
Accounts payable	59,601
Contracts payable	32,388
Accrued interest payable	147,443
Current portion of long-term debt	2,423,119
Total current liabilities	<u>3,733,575</u>
Noncurrent liabilities	
Compensated absences payable	218,698
Other postemployment benefits	25,716
Restricted accreted interest payable	2,773,818
Revenue bonds payable (less unamortized bond discount and deferred loss on refunding)	41,640,197
Less: current portion	(2,423,119)
Total noncurrent liabilities	<u>42,235,310</u>
Total liabilities	<u>45,968,885</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 67,277,388
Restricted for debt service	1,749,124
Restricted for renewal and replacement	1,059,508
Restricted for business development	499,212
Restricted for capital improvements	4,241,677
Restricted for compensating balance	375,000
Unrestricted	6,885,475
Total net assets	<u><u>\$ 82,087,384</u></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, 2010

	2010
Operating revenue	
Port facilities	\$ 13,881,078
Less: Direct marketing support	(1,720,681)
Net operating revenue	12,160,397
 Operating expenses	
General expenses	1,891,125
Engineering and maintenance	1,872,638
Security	1,658,608
Administration	1,136,359
Business development	373,230
Operations	319,788
Operating expenses before depreciation and amortization	7,251,748
 Operating income before depreciation and amortization	4,908,649
 Depreciation and amortization expense	4,325,784
 Operating income (loss)	582,865
 Non-operating revenues (expenses)	
Investment earnings	25,979
Grant revenue	622,815
Grant expense	(517,652)
Interest expense	(2,422,258)
Total nonoperating revenue (expenses)	(2,291,116)
 Income (loss) before contributions	(1,708,251)
 Capital contributions - grants	542,472
 Change in net assets	(1,165,779)
 Total net assets - beginning	83,253,163
 Total net assets - ending	\$ 82,087,384

See notes to the financial statements

PORT OF PALM BEACH
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2010

Cash flows from operating activities:	
Receipts from customers and users	\$ 11,823,361
Payments to suppliers for goods and services	(3,807,164)
Payments to or on behalf of employees	(3,585,275)
Net cash provided by operating activities	<u>4,430,922</u>
Cash flows from non-capital financing activities	
Grant revenues received	610,564
Payments to grant subrecipient	(517,652)
Net cash provided by non-capital financing activities	<u>92,912</u>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(1,164,486)
Interest paid on debt	(1,871,630)
Principal paid on revenue bond maturities	(2,329,338)
Capital grants received	541,443
Net cash provided (used) for capital and related financing activities	<u>(4,824,011)</u>
Cash flows from investing activities	
Interest received on investments	30,193
Net cash provided (used) by investing activities	<u>30,193</u>
Net increase (decrease) in cash and cash equivalents	(269,984)
Cash and cash equivalents- beginning	<u>17,452,127</u>
Cash and cash equivalents - ending	<u><u>\$ 17,182,143</u></u>

See notes to the financial statements

PORT OF PALM BEACH DISTRICT
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2010
(Continued)

CASH AND CASH EQUIVALENTS CLASSIFIED AS :

Unrestricted assets	\$ 6,027,223
Restricted assets	11,154,920
Total	\$ 17,182,143

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ 582,865
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:	
Depreciation expense	4,233,539
Amortization expense	92,245
(Increase) decrease in assets	
Accounts receivable	71,485
Prepaid expenses	(34,234)
Customer deposits	(252,800)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(119,315)
Deferred income	(155,721)
Other post employment benefits	12,858
Total adjustments	3,848,057
Net cash provided (used) by operating activities	\$ 4,430,922

See notes to the financial statements

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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, 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, 2010**

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, 2010**

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, 2010**

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, 2010**

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, 2010 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 and other revenues for the use of, and privileges at the Port's facilities are reported as operating revenues, and amounts received from operating grants, investment earnings, gains resulting from disposition of assets and any revenue item not earned in the ordinary course of business are reported as non-operating revenue.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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 57.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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, 2010**

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2010, the Port's book balance for deposits in "Qualified Public Depositories" was \$12,479,419 and the related bank balance totaled \$12,809,087. The Port also had \$1,550 in petty cash for a total carrying amount of \$12,480,969.

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, 2010, 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, 2010**

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, 2010, the Port held the following investments, which are reported as cash and cash equivalents in the statement of net assets:

	(1) <u>Credit Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Wells Fargo Advantage Institutional US Government Money Market Fund	Aaa & AAAM	\$4,350,260	17 days
Milestone Treasury Obligations Portfolio Money Market Fund	Aaa & AAAM	<u>350,914</u>	Maximum 60 days
		<u>\$4,701,174</u>	

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

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

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

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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, 2010, 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, 2010 is as follows:

By Category:

Deposits	\$ 12,479,419
Petty cash	1,550
Investments	4,701,174
Total deposits and investments	<u>\$17,182,143</u>
Presented in the statement of net assets	
Cash and cash equivalents	\$ 6,027,223
Restricted cash and cash equivalents	11,154,920
Total statements of net assets	<u>\$17,182,143</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended September 30, 2010, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 26,866,009	\$	\$	\$ 26,866,009
Construction	804,246	1,187,290	(813,181)	1,178,355
Total capital assets, not being depreciated	<u>27,670,255</u>	<u>1,187,290</u>	<u>(813,181)</u>	<u>28,044,364</u>
Capital assets, being depreciated:				
Building and improvements	60,068,781	111,749		60,180,530
Slips and improvements	22,355,975	32,629		22,388,604
Other improvements	32,958,271	111,796		33,070,067
Wharf and loading ramps	7,798,154			7,798,154
Machinery and equipment	2,744,489	427,887	(1,577)	3,170,799
Autos and trucks	497,648			497,648
Furniture and fixtures	158,079	124,040		282,119
Total capital assets, being depreciated	<u>126,581,397</u>	<u>808,101</u>	<u>(1,577)</u>	<u>127,387,921</u>
Less: accumulated depreciation	(42,282,742)	(4,233,539)	1,577	(46,514,704)
Total capital assets, being depreciated, net	<u>84,298,655</u>	<u>(3,425,438)</u>		<u>80,873,217</u>
Total capital assets, net	<u>\$ 111,968,910</u>	<u>\$ (2,238,148)</u>	<u>\$ (813,181)</u>	<u>\$ 108,917,581</u>

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Revenue bonds payable	\$45,446,143	\$	\$(2,329,338)	\$43,126,805	\$2,423,119
Less deferred amounts:					
Issuance discounts	(650,444)		46,278	(604,166)	
Loss on refunding	(964,871)		82,430	(882,442)	
Total bonds payable	<u>43,840,828</u>		<u>(2,283,060)</u>	<u>41,640,197</u>	<u>2,423,119</u>
Compensated absences	437,395	347,304	(347,304)	437,395	218,697
Other postemployment benefits	12,858	12,858		25,716	
Accreted interest payable	<u>2,343,369</u>	<u>430,449</u>		<u>2,773,818</u>	
Total long-term liabilities	<u>\$46,634,450</u>	<u>\$ 790,611</u>	<u>\$(2,630,364)</u>	<u>\$44,794,697</u>	<u>\$2,641,816</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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, 2010, were \$1,871,630 and \$2,422,258, 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, 2010, 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 \$68,084,297. Principal and interest paid for the year ended September 30, 2010 totaled \$4,200,968 and pledged gross revenues were \$12,186,376. At September 30, 2010, principal and interest to maturity in September 2026 to be paid from pledged future revenues totaled \$68,084,297.

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, 2010**

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, 2010, the Port had no supplemental revenues. At September 30, 2010, 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, 2010**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Improvement Bonds, Series 1999 A (Continued)

Debt service requirements to maturity are as follows at September 30, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 835,000	\$ 908,354	\$ 1,743,354
2012	880,000	865,560	1,745,560
2013	925,000	819,360	1,744,360
2014	970,000	770,335	1,740,335
2015	1,025,000	718,925	1,743,925
2016-2020	6,015,000	2,702,363	8,717,362
2021-2024	6,105,000	861,850	6,996,850
	<u>\$ 16,755,000</u>	<u>\$ 7,646,746</u>	<u>\$ 24,401,746</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, 2010**

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, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 490,000	\$ 39,510	\$ 529,510
2012	510,000	20,400	530,400
2013			
2014			
2015			
2016-2020			
2021-2025	3,842,453	8,322,547	12,165,000
2026	1,199,382	3,150,618	4,350,000
	<u>\$ 6,041,835</u>	<u>\$ 11,533,075</u>	<u>\$ 17,574,910</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, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 260,000	\$ 478,150	\$ 738,150
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
2016-2020	7,310,000	1,541,465	8,851,465
2021	2,410,000	99,413	2,509,413
	<u>\$12,510,044</u>	<u>\$4,155,348</u>	<u>\$16,665,392</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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, 2010:

	Principal	Interest	Total Debt Service
2011	\$ 838,119	\$ 343,295	\$ 1,181,414
2012	871,172	306,501	1,177,673
2013	912,667	268,257	1,180,924
2014	953,233	228,191	1,181,424
2015	992,830	186,344	1,179,174
2016-2018	3,251,906	289,736	3,541,640
	<u>\$7,819,926</u>	<u>\$1,622,323</u>	<u>\$9,442,249</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 June 25, 2009, Moody's Investors Service downgraded the insurance financial strength rating of National to 'Baa1' with a developing outlook. In addition,

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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. Fitch Ratings, for both Syncora and MBIA remain withdrawn and have not changed.

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, 2010, the principal outstanding but considered extinguished under these funding arrangements is as follows:

Revenue Refunding Bonds, Series 1996A	<u>\$ 985,000</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 55 employees. Substantially all the Port's non-management maintenance, railroad and security employees are union employees, which represents about 46% 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, 2010**

NOTE 5 – CONTRACTS AND CONTINGENCIES (Continued)

Celebration Cruise Operator

On March 15, 2010, Celebration Cruise Operator, Inc., (dba Bahamas Celebration) began operations as a multi-day cruise line to the Bahamas under a five year agreement with the Port of Palm Beach District. 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. For the year ended September 30, 2010 the revenues from the passenger charges and the net parking fees were \$2,616,634 and \$482,614, respectively and the Ports contribution to the Bahamas Celebration’s sales and marketing effort for was \$ 1,720,681.

Contractual Commitments

As of September 30, 2010, the Port had contractual commitments for engineering services on Slip #3 that amounted to approximately \$96,000.

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, 2010 was \$3,806,265.

Future minimum rentals are predicated upon the ability of the lessees to meet their commitments. Minimum future rentals under non-cancelable operating leases having an initial term in excess of one year as of September 30, 2010 are as follows:

2011	\$ 3,623,336
2012	3,613,462
2013	2,871,857
2014	1,467,890
2015	1,394,421
Thereafter	<u>8,174,436</u>
Total minimum future rentals	<u>\$ 21,145,402</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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.

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Pension Plan - Defined Benefit (Continued)

Plan Description (Continued)

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.

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Pension Plan - Defined Benefit (Continued)

Plan Description (Continued)

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.

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, 2010. 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, or calling toll free at 877-377-1737.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Pension Plan - Defined Benefit (Continued)

Funding Policy

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

Members of the FRS are not required to make employee contributions to establish service credit for work performed in a regularly established position; employers pay all required contributions.

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.

Pursuant to Florida Statute 121.055 and 60S-1.0057, any member of the Florida Retirement System or an existing system who is eligible for membership in the Senior Management Service Class may elect to participate in the Senior Management Service Optional Annuity Program.

The Executive Director has not elected to participate.

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

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Pension Plan- Defined Benefit (Continued)

Funding Policy (Continued)

The contribution rates by job class for the Port’s employees as a percentage of covered payroll at September 30, 2010, are as follows and include the 1.11% HIS rate and the 0.03% administrative fee, except for the DROP rate which does not include the 0.03% administrative fee:

Elected Officials	18.64%
Senior Management Service Class	14.57%
Regular Class	10.77%
DROP	12.25%

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, 2008, 2009, and 2010 were \$211,957, \$211,720, and \$210,463 respectively, which were equal to the required contributions.

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Investment Plan - Defined Contribution (Continued)

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.

The contribution rates by job class for the Port's employees as a percentage of covered payroll at September 30, 2010, are as follows and include the 1.11% HIS rate and the 0.03% administrative fee, except for the DROP rate which does not include the 0.03% administrative fee:

Elected Officials	18.64%
Senior Management Service Class	14.57%
Regular Class	10.77%
DROP	12.25%

The Port's contribution to the Florida Retirement System Investment Plan for the fiscal year ended September 30, 2010 was \$44,780 which was equal to the required contribution.

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 7 – EMPLOYEE RETIREMENT PLAN (Continued)

Retiree Health Insurance Subsidy Program (Continued)

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.

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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

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 post employment benefit (OPEB) cost 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.

The annual OPEB cost and the net OPEB obligation for the Port for the current year and the related information is as follows:

Required contribution rates:	
Employer	Pay-as-you-go
Plan members	N/A
Normal cost	\$ 12,987
Interest on normal cost	450
Amortization	
Interest on amortization	(613)
Annual OPEB cost	12,824
Contributions made	<u>(4,644)</u>
Increase in net OPEB obligation	8,180
Net OPEB obligation October 1, 2009	<u>12,858</u>
Net OPEB obligation September 30, 2010	<u>\$ 21,038</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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

Trend Information

Three-Year Trend Information			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/08	N/A	N/A	N/A
09/30/09	\$ 12,858	0.00%	\$ 12,858
09/30/10	\$ 12,824	36.2%	\$ 21,038

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	\$ 76,862
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 76,862
Funded ratio	0.00%
Covered payroll	\$ 2,646,757
UAAL as a percentage of covered payroll	3.14%

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 \$4,644 to the plan at this time.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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

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.

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% of the Port facilities revenue during the fiscal year ended September 30, 2010. Bahamas Celebration was in operation for approximately six months during the year. The Port facilities revenue from these customers were as follows:

Tropical Shipping USA, LLC/Birdsall, Inc.		\$ 4,576,485
Port Contractor – Bahamas Celebration	\$2,616,634	
Less Direct Marketing Support	<u>(1,720,681)</u>	
Total Port Contractor – Bahamas Celebration		\$ 895,953

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, 2010**

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%	\$ 2,646,757	2.9%

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, 2010

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2011	\$ 908,354	\$ 835,000	\$ 1,743,354
2012	865,560	880,000	1,745,560
2013	819,360	925,000	1,744,360
2014	770,335	970,000	1,740,335
2015	718,925	1,025,000	1,743,925
2016	663,831	1,080,000	1,743,831
2017	605,781	1,135,000	1,740,781
2018	544,775	1,200,000	1,744,775
2019	478,775	1,265,000	1,743,775
2020	409,200	1,335,000	1,744,200
2021	335,775	1,405,000	1,740,775
2022	258,500	1,485,000	1,743,500
2023	176,825	1,565,000	1,741,825
2024	90,750	1,650,000	1,740,750
	<u>\$ 7,646,746</u>	<u>\$ 16,755,000</u>	<u>\$ 24,401,746</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$9,576,835 Revenue Refunding Bonds - Series 2002
September 30, 2010

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2011	\$ 39,510	\$ 490,000	\$ 529,510
2012	20,400	510,000	530,400
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022	1,693,276	911,724	2,605,000
2023	1,749,258	855,742	2,605,000
2024	1,799,169	805,831	2,605,000
2025	3,080,844	1,269,156	4,350,000
2026	3,150,618	1,199,382	4,350,000
	<u>\$ 11,533,075</u>	<u>\$ 6,041,835</u>	<u>\$ 17,574,910</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$13,090,044 Revenue Refunding Bonds - Series 2005
September 30, 2010

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2011	\$ 478,150	\$ 260,000	\$ 738,150
2012	468,725	275,000	743,725
2013	683,369	590,044	1,273,413
2014	458,413	815,000	1,273,413
2015	425,813	850,000	1,275,813
2016	391,813	885,000	1,276,813
2017	356,413	920,000	1,276,413
2018	319,613	955,000	1,274,613
2019	281,413	2,230,000	2,511,413
2020	192,213	2,320,000	2,512,213
2021	99,413	2,410,000	2,509,413
	<u>\$ 4,155,348</u>	<u>\$ 12,510,044</u>	<u>\$ 16,665,392</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$10,139,551 Revenue Refunding Bonds - Series 2007
September 30, 2010

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2011	\$ 343,295	\$ 838,119	\$ 1,181,414
2012	306,501	871,172	1,177,673
2013	268,257	912,667	1,180,924
2014	228,191	953,233	1,181,424
2015	186,344	992,830	1,179,174
2016	142,758	1,037,415	1,180,173
2017	97,216	1,080,987	1,178,203
2018	49,761	1,133,503	1,183,264
	<u>\$ 1,622,323</u>	<u>\$ 7,819,926</u>	<u>\$ 9,442,249</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
Combined Revenue Bonds
September 30, 2010

<u>Year Ending</u> <u>September 30</u>	<u>Interest</u>	<u>Retirement</u> <u>of Bonds</u>	<u>Total</u>
2011	\$ 1,769,309	\$ 2,423,119	\$ 4,192,428
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>\$ 24,957,492</u>	<u>\$ 43,126,805</u>	<u>\$ 68,084,297</u>

PORT OF PALM BEACH DISTRICT
Schedule of Port Facilities Revenues
For the Fiscal Years Ended
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Wharfage	\$ 2,983,573	\$ 2,554,546
Rent	3,806,265	3,828,131
Dockage	1,498,641	1,276,999
Parking	631,122	260,731
Passenger wharfage	154,901	542,039
Net passenger charges (1)	895,953	
Storage	98,307	104,866
Water	103,889	147,423
Line handling	35,600	51,600
Miscellaneous	222,751	105,183
Switching	351,396	350,235
Licenses	114,700	87,600
Identification badging	71,800	76,928
Terminal operating fee	26,391	10,850
Security fee	528,537	607,676
Cargo terminal fee	521,546	397,558
Harbor master fee	77,735	68,415
Vessel bunkers	37,290	27,290
	<hr/>	<hr/>
Total Port Facilities Revenue	<u><u>\$ 12,160,397</u></u>	<u><u>\$ 10,498,070</u></u>

(1) - Gross passenger charges of \$2,616,634 less direct marketing support of \$1,720,681.

PORT OF PALM BEACH DISTRICT
Schedule of Operating Expenses
For the Fiscal Years Ended
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
General expenses		
Insurance and surety bonds	\$ 647,933	\$ 699,560
Retirement	224,152	246,359
Group insurance	645,998	616,376
Other benefits	26,827	15,272
Audit and other accounting services	88,089	82,202
Bad debt expense	18,809	
Trustee fees	11,745	11,324
Ad valorem taxes		642
Consulting	172,674	145,583
Contingency	54,723	10,648
Miscellaneous	175	182
Total general expenses	<u>1,891,125</u>	<u>1,828,148</u>
Engineering and maintenance		
Salaries	555,301	535,805
Payroll taxes	37,279	39,640
Maintenance and repairs - buildings and grounds	397,194	364,071
Electricity	322,309	370,679
Water	374,350	253,029
Janitorial and trash removal	60,901	94,041
Maintenance and repairs - equipment	36,994	73,653
Dredging study		143,984
Engineering fees	13,000	6,000
Surveys and maps	1,525	10,660
Fuel and oil - port vehicles	36,393	31,181
Telephone	15,307	13,769
Uniforms	9,917	11,329
Shop maintenance and supplies	9,069	14,003
Miscellaneous	3,099	2,544
Total engineering and maintenance	<u>1,872,638</u>	<u>1,964,388</u>
Security		
Salaries	690,333	716,583
Payroll taxes	49,900	51,972
Contract services	796,988	769,124
Security equipment	5,958	37,851
Identification badges	80,421	96,886
Uniforms	5,906	6,248
Telephone	7,765	7,729
Maintenance and repairs	16,956	17,276
Miscellaneous	4,381	3,579
Total security	<u>1,658,608</u>	<u>1,707,248</u>

(Continued)

PORT OF PALM BEACH DISTRICT
Schedule of Operating Expenses (Continued)
For the Fiscal Years Ended
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Administration		
Salaries	\$ 836,200	\$ 913,093
Payroll taxes	60,491	66,656
Telephone	35,652	34,269
Maintenance and repairs	10,531	12,310
Computer maintenance		7,301
Supplies, stationary and printing	23,227	19,774
Computer supplies	9,400	11,351
Postage	5,889	4,750
Training, seminars and consulting	23,998	32,581
Dues and subscriptions	245	395
Publications	6,708	2,113
Legal fees and expenses	114,945	104,258
Miscellaneous	9,073	4,383
Total administration	<u>1,136,359</u>	<u>1,213,234</u>
Business development		
Salaries	205,889	216,034
Payroll taxes	14,781	15,904
Retirement	21,735	23,749
Advertising and promotion	13,434	32,994
Trade development	25,720	48,126
Community relations	12,166	7,952
Travel	36,812	36,638
Dues and subscriptions	39,605	41,263
Publications	1,468	2,779
Miscellaneous	1,620	3,557
Total business development	<u>373,230</u>	<u>428,996</u>
Operations		
Salaries	207,524	275,645
Payroll taxes	15,176	20,280
Telephone	3,564	3,979
Contract services - parking	5,604	8,937
Cruise line transportation	7,048	55,408
Maintenance and repairs - train	18,447	39,800
Maintenance and repairs - track	34,651	21,329
Switching Services		85,434
Fuel and oil - train	19,958	17,623
Uniforms	59	
Equipment rental	6,050	
Miscellaneous	1,707	2,092
Total operations	<u>319,788</u>	<u>530,527</u>
Amortization	<u>92,245</u>	<u>89,535</u>
Depreciation	<u>4,233,539</u>	<u>4,181,306</u>
Total operating expenses	<u><u>\$ 11,577,532</u></u>	<u><u>\$ 11,943,382</u></u>

PORT OF PALM BEACH DISTRICT
Schedule of Revenues and Expenses
For the Fiscal Years Ended
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue		
Port facilities	\$ 13,881,078	\$ 10,498,070
Less: Direct marketing support	(1,720,681)	
Net operating revenue	<u>12,160,397</u>	<u>10,498,070</u>
Expenses		
General expenses	1,891,125	1,828,148
Engineering and maintenance	1,872,638	1,964,388
Security	1,658,608	1,707,248
Administration	1,136,359	1,213,234
Business development	373,230	428,996
Operations	319,788	530,527
Operating expenses	<u>7,251,748</u>	<u>7,672,541</u>
Operating income (loss) before depreciation and amortization	4,908,649	2,825,529
Depreciation and amortization expense	<u>4,325,784</u>	<u>4,270,841</u>
Operating income (loss) after depreciation and amortization	582,865	(1,445,312)
Non-operating revenues (expenses)		
Investment earnings	25,979	98,395
Grant revenue	622,815	252,057
Grant expense	(517,652)	
Loss on disposition of assets		(20,889)
Radiation portal monitor transfers		(11,500)
Interest expense	(2,422,258)	(2,504,938)
Total non-operating revenues (expenses)	<u>(2,291,116)</u>	<u>(2,186,875)</u>
Income (loss) before contributions	<u>(1,708,251)</u>	<u>(3,632,187)</u>
Capital contributions - grants	<u>542,472</u>	<u>377,020</u>
Change in net assets	<u><u>\$ (1,165,779)</u></u>	<u><u>\$ (3,255,167)</u></u>

PORT OF PALM BEACH DISTRICT
Budgetary Comparison Schedule
For the Fiscal Year Ended
September 30, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Operating revenues			
Wharfage	\$ 2,983,573	\$ 3,122,520	\$ (138,947)
Dockage	1,498,641	1,485,139	13,502
Parking	631,122	671,183	(40,061)
Passengers	154,901	337,024	(182,123)
Passenger charges	2,616,634	2,177,760	438,874
Storage	98,307	85,600	12,707
Water	103,889	142,114	(38,225)
Line handling	35,600	35,700	(100)
Switching	351,396	327,200	24,196
Identification badging	71,800	70,000	1,800
Terminal operating fee	26,391	189,486	(163,095)
Cargo terminal fee	521,546	464,126	57,420
Harbor Master Fees	77,735	68,220	9,515
Security Fee	528,537	501,280	27,257
Licenses and Permits	114,700	127,500	(12,800)
Miscellaneous Income/Labor	222,751	240,321	(17,570)
Rent	3,806,265	3,812,264	(5,999)
Vessel Bunkers	37,290	26,000	11,290
Total operating revenues	<u>13,881,078</u>	<u>13,883,437</u>	<u>(2,359)</u>
Less: Direct marketing support	<u>(1,720,681)</u>	<u>(1,432,080)</u>	<u>(288,601)</u>
Net operating revenues	<u>12,160,397</u>	<u>12,451,357</u>	<u>(290,960)</u>
Operating expenses			
General expenses	1,891,125	1,850,574	40,551
Engineering and maintenance	1,872,638	1,861,943	10,695
Security	1,658,608	1,778,937	(120,329)
Administration	1,136,359	1,076,333	60,026
Business development	373,230	465,260	(92,030)
Operations	319,788	394,761	(74,973)
Amortization	92,245	97,034	(4,789)
Depreciation	4,233,539	4,142,020	91,519
Total operating expenses	<u>11,577,532</u>	<u>11,666,862</u>	<u>(89,330)</u>
Operating income (loss)	<u>582,865</u>	<u>784,495</u>	<u>(201,630)</u>
Non-operating revenue (expenses)			
Investment earnings	25,979	40,000	(14,021)
Grant revenue	622,815	107,000	515,815
Grant expense	(517,652)		(517,652)
Interest expense	(2,422,258)	(2,303,176)	(119,082)
Total non-operating revenue (expenses)	<u>(2,291,116)</u>	<u>(2,156,176)</u>	<u>(134,940)</u>
Income (loss) before contributions	<u>(1,708,251)</u>	<u>(1,371,681)</u>	<u>(336,570)</u>

PORT OF PALM BEACH DISTRICT
Schedule of Operating Statistics
For the Fiscal Years Ended
September 30, 2010 and 2009
Unaudited

	<u>2010</u>	<u>2009</u>	<u>Percent Change</u>
CARGO TONNAGE			
General Cargo			
Container	987,620	988,755	(0.11%)
Break-bulk	69,174	59,990	15.31%
Relay	69,814	68,990	1.19%
Sub-Total	<u>1,126,608</u>	<u>1,117,735</u>	0.79%
Bulk and Dry Cargo			
Asphalt	57,561	85,631	(32.78%)
Cement		10,829	(100.00%)
Diesel	60,886	111,415	(45.35%)
Fuel Oil	452,684	273,722	65.38%
Miscellaneous	18,159	10,800	68.14%
Molasses	171,456	163,040	5.16%
Sugar	660,992	591,116	11.82%
Sub-Total	<u>1,421,738</u>	<u>1,246,553</u>	14.05%
TOTAL ALL CARGO	<u>2,548,346</u>	<u>2,364,288</u>	7.78%
Inbound	100,866	104,526	(3.50%)
Outbound	105,719	111,877	(5.50%)
TOTAL TEUs	<u>206,585</u>	<u>216,403</u>	(4.54%)
Inbound	7,703	8,220	(6.29%)
Outbound	7,624	8,242	(7.50%)
TOTAL RAIL CARS	<u>15,327</u>	<u>16,462</u>	(6.89%)
VESSELS	<u>1,467</u>	<u>1,969</u>	(25.50%)
PASSENGERS	<u>285,043</u>	<u>349,800</u>	(18.51%)

PORT OF PALM BEACH DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>	<u>Transfers to Subrecipients</u>
Major Federal Program:				
<u>U.S. Department of Homeland Security</u>				
Federal Emergency Management Agency				
Port Security Grant Program	97.056	2007-GB-T7-0123	\$ 454,591	\$
Port Security Grant Program	97.056	2008-GB-T8-0032	<u>517,652</u>	<u>517,652</u>
			<u>972,243</u>	<u>517,652</u>
American Recovery and Reinvestment Act				
<u>U.S. Department of Homeland Security</u>				
Federal Emergency Management Agency				
AARA Port Security Grant Program	97.116	2009-PU-R1-0188	<u>42,160</u>	<u></u>
Total U.S. Department of Homeland Security			<u>1,014,403</u>	<u>517,652</u>
Total Federal Awards			<u>\$ 1,014,403</u>	<u>\$ 517,652</u>

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the Port's federal awards programs for the year ended September 30, 2010, and is presented in accordance with the requirements of OMB Circular A-133. The schedule has been prepared in accordance with generally accepted accounting principles.

NOTE 2 - CONTINGENCIES

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

PORT OF PALM BEACH DISTRICT
Net Assets
Fiscal Years Ended September 30, 2006 through 2010
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	7,924,521	6,885,475	82,087,384

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

(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
Unaudited

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Wharfage	\$ 3,278,944	\$ 3,117,086	\$ 2,849,117	\$ 2,554,546	\$ 2,983,573
Rent	3,679,084	3,419,133	3,471,814	3,828,131	3,806,265
Dockage	1,865,320	1,652,796	1,179,018	1,276,999	1,498,641
Parking	446,306	599,402	193,691	260,731	631,122
Passenger wharfage	965,370	883,548	672,378	542,039	154,901
Net passenger charges					895,953
Storage	183,422	233,698	234,855	104,866	98,307
Water	157,853	160,524	145,322	147,423	103,889
Line handling	80,015	78,975	72,350	51,600	35,600
Miscellaneous	110,590	134,981	152,242	105,183	222,751
Switching	319,815	382,950	442,195	350,235	351,396
Licenses	71,550	68,000	78,000	87,600	114,700
Identification badging	232,008	286,963	164,782	76,928	71,800
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
Cargo terminal fee	450,413	470,749	411,588	397,558	521,546
Harbor master fee	71,890	67,165	54,110	68,415	77,735
Vessel bunkers	48,925	37,475	28,200	27,290	37,290
Total	<u>\$ 12,951,783</u>	<u>\$ 12,576,647</u>	<u>\$ 10,959,147</u>	<u>\$ 10,498,070</u>	<u>\$ 12,160,397</u>

PORT OF PALM BEACH DISTRICT
Operating Expenses
Fiscal Years Ended September 30, 2006 through 2010
Unaudited

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General expenses	\$ 2,046,673	\$ 1,920,959	\$ 1,917,359	\$ 1,828,148	\$ 1,891,125
Engineering and maintenance	2,353,542	1,894,295	2,530,948	1,964,388	1,872,638
Security	2,050,457	1,877,450	1,862,794	1,707,248	1,658,608
Administration	1,288,250	1,335,229	1,219,497	1,213,234	1,136,359
Business development	452,260	431,742	637,655	428,996	373,230
Operations	321,395	670,308	628,559	530,527	319,788
Subtotal	<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>
Amortization	112,009	112,561	97,034	89,535	92,245
Depreciation	<u>3,921,769</u>	<u>4,011,840</u>	<u>3,660,573</u>	<u>4,181,306</u>	<u>4,233,539</u>
Total	<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>

PORT OF PALM BEACH DISTRICT
Non-Operating Revenues
Fiscal Years Ended September 30, 2006 through 2010
Unaudited

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Investment earnings	\$ 1,085,833	\$ 1,273,597	\$ 555,819	\$ 98,395	\$ 25,979
Grant revenue	556,630	839,574	836,505	252,057	622,815
Grant expense					(517,652)
Loss on disposition of assets	(307,109)	(285,493)	(2,012)	(20,889)	
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)
Total	<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>

PORT OF PALM BEACH DISTRICT
Changes in Net Assets
Fiscal Years Ended September 30, 2006 through 2010
Unaudited

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net Operating Income (Loss)	\$ 405,428	\$ 669,768	\$ (1,595,272)	\$ (1,445,312)	\$ 582,865
Net Non-Operating Revenue (Expense)	(1,556,672)	(1,850,466)	(1,536,927)	(2,186,875)	(2,291,116)
Income (Loss) before Contributions	(1,151,244)	(1,180,698)	(3,132,199)	(3,632,187)	(1,708,251)
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>
Change in Net Assets	<u>\$ 1,032,412</u>	<u>\$ 2,674,583</u>	<u>\$ 5,958,669</u>	<u>\$ (3,255,167)</u>	<u>\$ (1,165,779)</u>

PORT OF PALM BEACH DISTRICT
Operating Statistics
Fiscal Years Ended September 30, 2006 through 2010
Unaudited

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
CARGO TONNAGE					
General Cargo					
Container	1,138,130	1,156,025	1,205,529	1,057,745	1,057,434
Break-bulk	161,539	129,194	113,491	59,990	69,174
Sub-Total	<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>
Bulk and Dry Cargo					
Asphalt	35,317	61,634	39,265	85,631	57,561
Cement	193,349	130,711	125,665	10,829	
Petroleum	1,261,868	958,497	773,113	385,137	513,570
Miscellaneous	-	20,247		10,800	18,159
Molasses	111,687	159,388	193,896	163,040	171,456
Sugar	374,780	607,443	425,796	591,116	660,992
Sub-Total	<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>
TOTAL ALL CARGO	<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>
TEUs	<u>244,004</u>	<u>257,507</u>	<u>244,638</u>	<u>216,403</u>	<u>206,585</u>
RAIL CARS	<u>10,409</u>	<u>10,985</u>	<u>19,813</u>	<u>16,462</u>	<u>15,327</u>
VESSELS	<u>2,462</u>	<u>2,831</u>	<u>2,168</u>	<u>1,969</u>	<u>1,467</u>
PASSENGERS	<u>520,557</u>	<u>566,408</u>	<u>424,204</u>	<u>349,800</u>	<u>285,043</u>

PORT OF PALM BEACH DISTRICT
Revenue Bond Coverage
Fiscal Years Ended September 30, 2006 through 2010
Unaudited

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross Revenues	(1)	\$ 14,037,616	\$ 13,850,244	\$ 11,514,966	\$ 10,596,465	\$12,186,376
Operating Expenses	(2)	8,512,577	8,129,983	8,796,812	7,672,541	7,251,748
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>
Maximum Annual Debt Service		4,350,000	4,350,000	4,350,000	4,350,000	4,350,000
Required Coverage		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>
Excess (Deficiency)		<u>\$ 740,039</u>	<u>\$ 935,261</u>	<u>\$ (2,066,846)</u>	<u>\$ (1,861,076)</u>	<u>\$ 149,628</u>
Coverage		127%	132%	62%	67%	113%

-
- (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, 2010, and have issued our report thereon dated April 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 April 15, 2011.

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 & Mimer, P.A.

West Palm Beach, Florida
April 15, 2011



NOWLEN, HOLT & MINER, P.A.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Port of Palm Beach District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Port of Palm Beach District's major federal programs for the year ended September 30, 2010. The Port of Palm Beach District's major federal programs is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Port of Palm Beach District's management. Our responsibility is to express an opinion on the Port of Palm Beach District's compliance based on our audit.

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

In our opinion, the Port of Palm Beach District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2010.

Internal Control over Compliance

Management of the Port of Palm Beach District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Port of Palm Beach District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port of Palm Beach District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 April 15, 2011

This report is intended solely for the information and use of the management of the Port of Palm Beach District, the Board of Commissioners, others within the entity, 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 & Mimes, P.A.

West Palm Beach, Florida
April 15, 2011

PORT OF PALM BEACH DISTRICT
Schedule of Findings and Questioned Costs
September 30, 2010

Section I—Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? _____yes X no
- Reportable condition identified that is not considered to be a material weakness? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs/projects:

- Material weakness identified? _____yes X no
- Reportable condition identified that is not considered to be a material weakness? _____yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 or Chapter 10.550 Rules of the Auditor General? _____yes X no

Identification of Major Program

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.056	U.S. Department of Homeland Security Federal Emergency Management Agency • Port Security Grant Program

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

Auditee qualified as low-risk auditee? _____yes X no

PORT OF PALM BEACH DISTRICT
Schedule of Findings and Questioned Costs
September 30, 2010

Section II—Financial Statement Findings

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

Section III—Federal Award Findings and Questioned Costs

Major Federal Program

U.S. Department of Homeland Security
Federal Emergency Management Agency
Port Security Grant Program – CFDA 97.056

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

**PORT OF PALM BEACH DISTRICT
Summary Schedule of Prior Audit Findings
September 30, 2010**

Federal Summary Schedule of Prior Audit Findings

The Port of Palm Beach District was not required to have and did not have a single audit in the prior year.



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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, 2010, and have issued our report thereon dated April 15, 2011.

We conducted our audit in accordance with United States generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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*; Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133; and Schedule of Findings and Questioned Costs. Disclosures in those reports, which are dated April 15, 2011, 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

Current Year Recommendations

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, 2010, we did not have any recommendations that are required to be reported in this letter.

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.

Violations of Laws, Regulations, Contracts and Grant Provisions or Abuse

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements or abuse that 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, 2010, 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, 2010, 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 requires 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, 2010. 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. 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 more than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2010. The Port was required to have a federal single audit but was not required to have 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
April 15, 2011