

PORT OF PALM BEACH DISTRICT
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITORS' REPORT THEREON
SEPTEMBER 30, 2009

PORT OF PALM BEACH DISTRICT
SEPTEMBER 30, 2009

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INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying statement of net assets of the Port of Palm Beach District as of and for the year ended September 30, 2009, and the related statements of revenues, expenses and changes in net assets for the year then ended which collectively comprise the Port of Palm Beach District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Port of Palm Beach District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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, 2009, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2010 on our consideration of the Port of Palm Beach District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis shown on pages 3 through 13 and the required supplemental information on page 50 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port of Palm Beach District's basic financial statements. The accompanying schedules, listed as other supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The schedule of operating statistics presented on page 60 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
May 7, 2010

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

The following Management's Discussion and Analysis (MD&A) of the financial performance and activity of the Port of Palm Beach District (Port of Palm Beach) is provided as both an introduction to and as assistance in the understanding to the financial statements of the Port for the fiscal year ended September 30, 2009. It also provides selected comparisons to the prior fiscal year ended September 30, 2008. The information represented should be read in conjunction with the financial statements, notes and supplemental schedules found in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

- The Statement of Net Assets which presents the financial position of the Port at the end of the fiscal year. The statement includes all assets and liabilities of the Port, with the difference reported as net assets. Net assets are an indicator of the current fiscal health of the organization and the Port's financial position over time.
- The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, some revenues and expenses are reported in this statement for items that will result in cash flows in future fiscal periods.
- The Statement of Cash Flows presents information about the cash and cash equivalent activity for the fiscal year, resulting from operating, non-capital financing, capital financing and investing activities.

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

Financial Operating Highlights

- Operating Revenues decreased by \$0.5 million or 4.5% from \$11.0 million in FY 2008 to \$10.5 million in FY 2009. Cargo related revenue declined by \$ 0.6 million or 9.1% from FY 2008 as a direct result of a decline in cargo tonnage during the year. Passenger related revenue declined by \$0.2 million or 15.5% from FY 2008 due to 17.5% fewer passengers in FY 2009. Rental Income increased by \$.3 million in FY 2009 primarily as a result of contractual escalation clauses in our lease agreements.

As a result of a 17.8% decline in cargo tonnage in FY 2009 wharfage and dockage revenue fell by nearly \$0.2 million from FY 2008. This decline in cargo tonnage also had a negative impact on both storage revenue and switching revenue from our rail operation. Combined, revenue from these two sources fell by \$0.2 million from FY 2008. All other cargo related revenues declined by another \$0.2 million in FY 2009.

A decline in day cruise volume of 74,404 passengers reduced passenger wharfage revenue by \$0.1 million in the current fiscal year when compared to FY 2008. Adding to the revenue decline in FY 2009 was a \$.1 million reduction as a result of the temporary rate concessions that were made to the new day cruise operator. These concessions were intended to assist the day cruise operator in meeting both start up costs and in making the significant marketing expenditures required to rebuild the day cruise business.

- Operating Expenses before depreciation and amortization decreased by nearly \$1.2 million in FY 2009. In 2009, the costs related to a dredging study of the Lake worth Inlet by the Army Corp of Engineers were \$0.4 million below FY 2008. The Port's financial commitment to the study is almost completed and future costs will be minimal. Additionally, there was a significant decline, \$0.1 million, in the expense related to establishing the Bad Debt Reserve for FY 2009. The effect of the ITG-Vegas bankruptcy was reserved for in FY 2008.

During FY 2009 the Port of Palm Beach District undertook a significant effort to reduce expenditures. The cost Contracted Security Services was reduced by \$0.2 million, General Insurance expenses were reduced by \$0.1 million, the Rail Services contract was cancelled and the work absorbed internally resulting in an additional \$0.1 million savings for the Port. Cost containment efforts in Business Development, Facility Maintenance, and Legal expenses contributed \$0.3 million of favorability to FY 2008. All other expenses categories generated additional savings of about \$0.1 million. Offsetting these savings was an increase in Consulting Costs of \$0.1 million related to the Port's involvement with the Intermodal Logistic Center Project.

- Depreciation Expense increased to \$4.2 million in FY 2009 from \$3.7 million in FY 2008 as a result of recognizing a full year of depreciation on the Southgate Warehouse Facility opened late in FY 2008.
- Operating Losses were \$1.4 million in FY 2009 compared to an Operating Loss of \$1.6 million in FY 2008.

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

- The Port recognized net non-operating expenses of \$2.2 million in FY 2009. This was \$0.7 million more than FY 2008. Investment Earnings fell by \$0.5 million as a result of interest rates falling precipitously from FY 2008 levels. Grant revenue, asset disposals and transfers combined fell by \$0.1 million. This was primarily the result of the Radiation Portal Monitoring System effectively being completed in FY 2008. All other Non-Operating Expenses increased by \$0.1 million.
- Loss Before Contributions was a \$3.6 million in FY 2009 compared to a loss of \$3.1 million in FY 2008.
- While the Port of Palm Beach District met fully all debt payment requirements on a timely basis in FY 2009, the Port did not generate the Net Revenue level required to meet certain Bond Covenants.
- Capital Contributions – Grants amounted to \$0.4 million in FY 2009 compared to \$9.1 million in FY 2008. This decrease was the result of reimbursements related to the Port's major current infrastructure improvement – Southgate Cargo Facility being effectively completed in FY 2008.
- The Port experienced a decrease in Net Assets for FY 2009 of \$3.3 million as compared to the increase of \$6.0 million in FY 2008.

CAPITAL ASSETS

The Port's non-current assets as of September 30, 2009 amounted to \$113.0 million, of which capital assets were \$112.0 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 2009 was \$3.5 million. This was attributable to an increase in Accumulated Depreciation of \$4.2 million and offset by a \$0.7 million increase in Capital Assets, of which the majority were Port security equipment and dock and slip improvements.

The Port has put on hold and extended various capital programs and grants to due to the decline in the economy and to conserve cash.

Construction-in-progress projects total \$804 thousand as of September 30, 2009 and include the following projects:

- Rail Improvements
- Slip # 3 Improvement
- Security Port Watch
- Railroad Trackage Repair
- Sewer System Improvements
- MOC-Buildings & Grounds

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

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

DEBT ADMINISTRATION

The Port had outstanding revenue bonds of \$45.5 million as of September 30, 2009. Of this amount \$2.3 million is current and will mature by September 1, 2010.

The Port implemented GASB Statement # 45 and recognized the cost of Other Post Employment Benefits (OPEB) beginning in FY 2009. Using the measurement method permitted by GASB Statement # 45 for employers with fewer than 100 total employees, it was determined that the current period cost and obligation was \$13 thousand and that the unfunded actuarial accrued liability was \$77 thousand.

The Port of Palm Beach District is required by the terms of the Series 1999 A, Series 2002 and the Series 2005 Bond Issues to generate sufficient Net Revenues so as to maintain a minimum ratio of 110% to the debt service requirement for that year. In FY 2009, and in FY 2008, the Port failed to meet this requirement. However, there was an improvement of slightly over \$300 thousand in FY 2009. The Port of Palm Beach District has raised tariff rates to increase revenue, implemented staff reductions and brought selected services in-house to reduce operating costs and initiated an aggressive marketing campaign to both 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. This will significantly increase net revenues and cash flows. The Port is also currently in negotiations to fill the day cruise line which will replace the loss of the past day cruise line operator, Oceans Development I, LLC. (dba Palm Beach Princess).

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the Port at the end of the fiscal year and includes all assets and liabilities of the Port. Net Assets are the difference between total assets and total liabilities and is an indicator of the current fiscal health of an organization. A summary of the Port's assets, liabilities, and net assets at September 30, 2009 is as follows:

	September 30	
	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets (including restricted assets)	\$ 18,533,203	\$ 19,864,227
Noncurrent assets		
Facilities, net	111,968,910	115,463,563
Other noncurrent assets	995,899	1,070,515
Total assets	131,498,012	136,398,305
<u>Liabilities</u>		
Current liabilities (including payable from restricted assets)	4,193,426	4,112,764
Noncurrent liabilities		
Revenue and Capital Appreciation Bonds	43,854,859	45,638,211
Other noncurrent liabilities	196,564	139,000
Total liabilities	48,244,849	49,889,975
<u>Net Assets</u>		
Invested in capital assets, net of related debt	68,128,082	70,379,263
Restricted	8,506,428	9,051,841
Unrestricted	6,618,653	7,077,226
Total net assets	\$ 83,253,163	\$ 86,508,330

Net Assets in FY 2009 were \$83.3 million, a decrease of 3.8 % or \$3.3 million from FY 2008

- Current Assets decreased by \$1.3 million as a result of a \$1.9 million decrease in Grant and Other Government Receivables, a \$0.9 million decrease in Accounts Receivable and Prepaid Expenses. Partially offsetting these decreases was a \$1.5 million increase in Cash and Cash Equivalents. The net decrease in Current Assets was a result of funding the Port's operating needs.

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

- The decrease in Revenue and Capital Appreciation Bonds of \$1.8 million is the result of the FY 2009 principal payment of \$2.2 million being partially offset by an increase in accreted interest payable of \$0.4 million.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	Fiscal Year Ended	
	September 30	
	<u>2009</u>	<u>2008</u>
Gross operating revenues	\$ 10,498,070	\$ 10,959,147
Operating expenses	<u>(7,672,541)</u>	<u>(8,893,846)</u>
Operating Income before depreciation and amortization	2,825,529	2,065,301
Depreciation and amortization expense	<u>(4,270,841)</u>	<u>(3,660,573)</u>
Operating Loss	(1,445,312)	(1,595,272)
Net non-operating expenses	(2,427,432)	(1,919,873)
Asset transfers	(11,500)	(453,559)
Grant revenue	<u>252,057</u>	<u>836,505</u>
Income / (Loss) before Contributions	<u>(3,632,187)</u>	<u>(3,132,199)</u>
Capital Grants	<u>377,020</u>	<u>9,090,868</u>
Increase (Decrease) in net assets	<u><u>\$ (3,255,167)</u></u>	<u><u>\$ 5,958,669</u></u>

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

GROSS OPERATING REVENUES

A summary of gross operating revenues through September 30, 2009 and 2008 follows:

	Fiscal Year Ended	
	September 30	
	<u>2009</u>	<u>2008</u>
Gross operating revenues:		
Wharfage	\$ 3,096,585	\$ 3,521,495
Rent	3,828,131	3,471,814
Dockage	1,276,999	1,179,018
Parking	260,731	193,691
Cruise and cargo terminal fees	476,823	623,528
Security Fees	607,676	651,655
Switching	350,235	442,195
Storage	104,866	234,855
Identification Badging	76,928	164,782
Utilities and miscellaneous	419,096	476,114
Total	<u>\$10,498,070</u>	<u>\$10,959,147</u>

Gross Operating Revenues in FY 2009 decreased by \$461 thousand from FY 2008.

- Wharfage in FY 2009 was lower than prior year by \$425 thousand primarily as a result of passenger wharfage declining by \$130 thousand, lower fuel oil shipments (FPL) amounting to a decline of \$252 thousand and a reduction in container volume (Tropical Shipping) resulting in a \$97 thousand decline from FY 2008. Partially offsetting these declines was a net increase in wharfage from sugar, molasses and all other shipments that increased wharfage revenue by \$54 thousand.
- Rent increased by \$356 thousand in FY 2009 primarily as a result of contractual increases in tenant leases.
- Dockage increased by \$98 thousand from FY 2008, primarily the result of additional dockage days related to the berthing of mega-yachts for repairs, additional sugar barges and the commencement of yacht shipping brought to the Port by a new agent.
- Parking fees increased by \$67 thousand as a result of the reinstatement of self-parking fees in May 2009. Parking fees had been abated according to the Day Cruise contract.

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

- Cruise, cargo, security and switching fees decreased in total by \$283 thousand from FY 2008 primarily as a result of lower cargo tonnage and fewer passengers in FY 2009.
- Storage fees fell by \$130 thousand from FY 2008. The decline in tonnage, especially break-bulk, allowed tenants to contain their cargo within their leased property rather than requiring additional short-term port land.
- Revenue from Identification Badging declined by \$88 thousand as the Port converted its security card system to the Federal Transportation Workers Identification Card (TWIC).

EXPENSES

A summary of operating expenses through September 30, 2009 and 2008 follows:

	Fiscal Year Ended	
	September 30	
	<u>2009</u>	<u>2008</u>
Operating expenses:		
General Expenses	\$ 1,828,148	\$ 1,917,359
Engineering and Maintenance	1,964,388	2,530,948
Security	1,707,248	1,862,794
Administration	1,213,234	1,219,497
Business Development	428,996	637,655
Operations	<u>530,527</u>	<u>628,559</u>
	<u>7,672,541</u>	<u>8,796,812</u>
Depreciation	4,181,306	3,660,573
Amortization	<u>89,535</u>	<u>97,034</u>
	<u>4,270,841</u>	<u>3,757,607</u>
 Total	 <u><u>\$ 11,943,382</u></u>	 <u><u>\$ 12,554,419</u></u>

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

Operating Expenses in FY 2009 decreased \$611 thousand from FY 2008.

- General Expenses declined by \$89 thousand from FY 2008. Bad Debt Expense declined by \$142 due to extraordinary bad debt expenses incurred in FY 2008. Increases in Group Health Insurance of \$76 thousand were more than offset by decreases in General Liability Insurance of \$89 thousand. Personnel reductions decreased Retirement Expenses by \$30 thousand while Consulting Expenses, due to the Intermodal Logistics Center, increased by \$111 thousand. All other General Expenses decline by \$15 thousand from FY 2008.
- Engineering and Maintenance Expense decreased by \$567 thousand from FY 2008. Of this amount, \$373 thousand represents reduced expenses related to the Dredging Study being conducted by the Army Corp. of Engineers. This is a one-time study to determine the maximum depth potential of the Lake Worth Inlet and is near completion. Utility and Fuel expense decreased by \$82 thousand in FY 2009 due to lower rates and conservation efforts. Reduced headcount in FY 2009 reduced personnel related expenses by \$73 thousand and all other Engineering and Maintenance Expense declined by \$39 thousand.
- Security Expense declined by \$156 thousand from FY 2008. This was due to a reduction in both the hourly rate and the use of Contract Services Personnel that resulted in a savings of \$160 thousand in FY 2008.
- Business Development Expense decreased by \$209 thousand. Headcount reductions resulted in a savings of \$94 thousand in personnel costs. Conservation and focused marketing efforts reduced Trade Development, Advertising and Travel expenses by \$102 thousand. While all other Business Development Expenses declined by \$13 thousand from FY 2008.
- Operations Expenses declined by \$98 thousand primarily the result of eliminating the Railroad Contract and bringing the operation of the railroad in-house with existing staff.

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

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

A summary of non-operating revenues and expenses and changes in net assets follows:

	Fiscal Year Ended	
	September 30	
	<u>2009</u>	<u>2008</u>
Operating Loss	\$ (1,445,312)	\$ (1,595,272)
Non-operating revenues and (expenses):		
Investment earnings	98,395	555,819
Operating Grant revenue	252,057	836,505
Interest expense	(2,504,938)	(2,473,680)
Loss on disposition of assets	(20,889)	(2,012)
Asset transfers	<u>(11,500)</u>	<u>(453,559)</u>
Net non-operating expenses	<u>(2,186,875)</u>	<u>(1,536,927)</u>
Income (loss) before contributions	(3,632,187)	(3,132,199)
Capital contributions - grants	<u>377,020</u>	<u>9,090,868</u>
Change in Net Assets	(3,255,167)	5,958,669
Total net assets - beginning	<u>86,508,330</u>	<u>80,549,661</u>
Total net assets - ending	<u><u>\$ 83,253,163</u></u>	<u><u>\$ 86,508,330</u></u>

Net Non-Operating Expenses in FY 2009 were \$650 thousand unfavorable to the prior year.

- Investment Earnings fell by over \$457 thousand as interest rates dropped to historical lows.
- Operating Grant Income declined by \$584 thousand. FEMA Grant payments for past hurricane damage were minimal in FY 2009 and the Operating Grant for the Radiation Portal Monitor (RPM) was substantially finalized in FY 2008. Asset Transfers declined by \$442 thousand as the (RPM) was transferred to the Federal Government in FY 2008.

**PORT OF PALM BEACH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

Capital Contributions from grants were \$377 thousand in FY 2009.

- This represented a decrease of \$8.7 million from the \$9.1 million received in FY 2008. The primary reason for this decrease was the completion of the Southgate Warehouse facility in FY 2008. Additionally the Port curtailed its Capital Program in FY 2009 in an effort to conserve cash.

Net Assets declined by \$3.3 million in FY 2009 compared to an increase of \$5.9 million in the prior year.

- This decrease of \$9.2 million primarily resulted from the \$8.7 million decrease in Capital Grants discussed above and the increase in Operating Loss of \$0.5 million.

PORT OF PALM BEACH DISTRICT
Statement of Net Assets
September 30, 2009

ASSETS

	2009
Current assets:	
Cash and cash equivalents	\$ 5,893,488
Accounts receivable (net of allowance for uncollectables of \$100,000)	733,274
Due from other governments	62,370
Interest receivable	1,825
Prepaid items	63,659
Restricted assets:	
Cash and cash equivalents	11,558,639
Grants receivable	132,351
Accounts receivable	3,186
Interest receivable	2,389
Prepaid items	82,022
Total current assets	18,533,203
 Noncurrent assets:	
Deferred charges	6,976
Unamortized bond issue costs	785,477
Restricted deferred charges	203,446
Total other noncurrent assets	995,899
Capital assets:	
Land and land rights	26,866,009
Buildings and improvements	60,068,781
Slips and improvements	22,355,975
Other improvements	32,958,271
Wharf and loading ramps	7,798,154
Machinery and equipment	2,744,489
Autos and trucks	497,648
Furniture and fixtures	158,079
Construction in progress	804,246
Less accumulated depreciation	(42,282,742)
Total capital assets (net of accumulated depreciation)	111,968,910
Total noncurrent assets	112,964,809
 Total assets	 \$ 131,498,012

LIABILITIES

	<u>2009</u>
Current liabilities	
Accounts payable and accrued expenses	\$ 833,129
Deferred revenue	311,512
Compensated absences payable	253,689
Payable from restricted assets:	
Customer deposits	267,800
Accounts payable	27,323
Contracts payable	14,665
Accrued interest payable	155,970
Current portion of long-term debt	2,329,338
Total current liabilities	<u>4,193,426</u>
Noncurrent liabilities	
Compensated absences payable	183,706
Other post-employment benefits	12,858
Restricted accreted interest payable	2,343,369
Revenue bonds payable (less unamortized bond discount and deferred loss on refunding)	43,840,828
Less: current portion	<u>(2,329,338)</u>
Total noncurrent liabilities	<u>44,051,423</u>
Total liabilities	<u>48,244,849</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 68,128,082
Restricted for debt service	2,207,267
Restricted for renewal and replacement	1,088,448
Restricted for business development	279,701
Restricted for capital improvements	4,556,012
Restricted for compensating balance	375,000
Unrestricted	<u>6,618,653</u>
Total net assets	<u>\$ 83,253,163</u>

See notes to the financial statements

PORT OF PALM BEACH DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended September 30, 2009

	2009
Operating revenue	
Port facilities	\$ 10,498,070
Operating expenses	
General expenses	1,828,148
Engineering and maintenance	1,964,388
Security	1,707,248
Administration	1,213,234
Business development	428,996
Operations	530,527
Operating expenses before depreciation and amortization	7,672,541
Operating income before depreciation and amortization	2,825,529
Depreciation and amortization expense	4,270,841
Operating loss	(1,445,312)
Non-operating revenues (expenses)	
Investment earnings	98,395
Grant revenue	252,057
Loss on disposition of assets	(20,889)
Radiation portal monitor transfers	(11,500)
Interest expense	(2,504,938)
Total nonoperating revenue (expenses)	(2,186,875)
Income (loss) before contributions	(3,632,187)
Capital contributions - grants	377,020
Change in net assets	(3,255,167)
Total net assets - beginning	86,508,330
Total net assets - ending	\$ 83,253,163

See notes to the financial statements

PORT OF PALM BEACH
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2009

Cash flows from operating activities:	
Receipts from customers and users	\$ 11,154,527
Payments to suppliers for goods and services	(3,455,044)
Payments to or on behalf of employees	(3,666,271)
Net cash provided by operating activities	<u>4,033,212</u>
 Cash flows from non-capital financing activities	
Grant revenues received	1,006,217
Radiation portal monitors purchases	(11,500)
Net cash provided by non-capital financing activities	<u>994,717</u>
 Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(966,739)
Interest paid on debt	(1,966,891)
Principal paid on revenue bond maturities	(2,224,258)
Capital grants received	1,509,325
Net cash provided (used) for capital and related financing activities	<u>(3,648,563)</u>
 Cash flows from investing activities	
Net decrease in investments	4,000,000
Interest received on investments	94,560
Net cash provided (used) by investing activities	<u>4,094,560</u>
 Net increase (decrease) in cash and cash equivalents	5,473,926
 Cash and cash equivalents- beginning	<u>11,978,201</u>
 Cash and cash equivalents - ending	<u><u>\$ 17,452,127</u></u>

See notes to the financial statements

PORT OF PALM BEACH DISTRICT
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2009
(Continued)

CASH AND CASH EQUIVALENTS CLASSIFIED AS :

Unrestricted assets	\$ 5,893,488
Restricted assets	11,558,639
Total	\$ 17,452,127

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

Operating income (loss)	\$ (1,445,312)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:	
Depreciation expense	4,181,306
Amortization expense	89,535
(Increase) decrease in assets	
Accounts receivable	349,158
Prepaid expenses	573,162
Customer deposits	265,500
Deferred charges	(14,918)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(131,795)
Deferred income	41,799
Other post employment benefits	12,858
Compensated absences	111,919
Total adjustments	5,478,524
Net cash provided (used) by operating activities	\$ 4,033,212

See notes to the financial statements

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity and General Overview

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Proprietary Fund Type (Continued)

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

Measurement Focus

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

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

Restricted net assets - 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".

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognized when they are incurred. Non-capital grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider are met.

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

Deposits and Investments

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

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

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

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

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

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

Deferred Compensation Plan Assets

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

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

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Compensation Plan Assets (Continued)

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

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

Accounts Receivable

The Port records accounts receivable at estimated net realizable value. Accordingly, accounts receivable at September 30, 2009 are shown net of allowances for doubtful accounts. The Port maintains an allowance for uncollectible accounts at a level which management believes is sufficient to cover potential credit losses.

Property and Equipment

Property and equipment are carried at cost, or estimated fair value for assets contributed, less accumulated depreciation. The Port defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years.

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

Revenues

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Costs

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

Compensated Absences

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

Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the 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 Annual Operating and Capital Budget is prepared and controlled on a departmental level. The Executive Director is authorized to transfer budgeted amounts within the departments. Budget amendments which require a change in total appropriations of any department are approved by the Port's Board. The budgets are prepared on the accrual basis of accounting, which is consistent with the basis utilized for proprietary funds.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Determination of Operating vs. Non-Operating Revenues and Expenses

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2009, the Port's book balance for deposits in "Qualified Public Depositories" was \$12,713,181 and the related bank balance totaled \$12,739,918. The Port also had \$1,550 in petty cash for a total carrying amount of \$12,714,731.

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, 2009, the Port's deposits are considered insured for custodial credit risk purposes

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments

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

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

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

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2009, the Port held the following investments, which are reported as cash and cash equivalents in the statement of net assets:

	<u>(1) Credit Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Evergreen Investments			
Institutional US Government			
Money Market Fund	Aaa & AAAM	\$4,350,204	17 days
Milestone Treasury			
Obligations Portfolio			
Money Market Fund	Aaa & AAAM	<u>387,192</u>	Maximum 60 days
		<u>\$4,737,396</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.

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, 2009, 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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

A reconciliation of deposit and investments at September 30, 2009 is as follows:

By Category:

Deposits	\$ 12,713,181
Petty cash	1,550
Investments	4,737,396
Total deposits and investments	<u>\$17,452,127</u>

Presented in the statement of net assets

Cash and cash equivalents	\$ 5,893,488
Restricted cash and cash equivalents	11,558,639
Total statements of net assets	<u>\$17,452,127</u>

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended September 30, 2009, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 26,866,009	\$	\$	\$ 26,866,009
Construction in progress	<u>884,816</u>	<u>591,551</u>	<u>(672,121)</u>	<u>804,246</u>
Total capital assets, not being depreciated	<u>27,750,825</u>	<u>591,551</u>	<u>(672,121)</u>	<u>27,670,255</u>
Capital assets, being depreciated:				
Building and improvements	60,104,326	61,724	(97,269)	60,068,781
Slips and improvements	22,128,628	227,347		22,355,975
Other improvements	32,921,841	36,430		32,958,271
Wharf and loading ramps	7,798,154			7,798,154
Machinery and equipment	2,334,019	454,697	(44,227)	2,744,489
Autos and trucks	498,233		(585)	497,648
Furniture and fixtures	<u>150,004</u>	<u>9,308</u>	<u>(1,233)</u>	<u>158,079</u>
Total capital assets, being depreciated:	125,935,205	789,506	(143,314)	126,581,397
Less: accumulated depreciation	<u>(38,222,467)</u>	<u>(4,181,306)</u>	<u>121,031</u>	<u>(42,282,742)</u>
Total capital assets, being depreciated, net	<u>87,712,738</u>	<u>(3,391,800)</u>	<u>(22,283)</u>	<u>84,298,655</u>
Total capital assets, net	<u>\$115,463,563</u>	<u>\$ (2,800,249)</u>	<u>\$(694,404)</u>	<u>\$111,968,910</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 3 – PROPERTY AND EQUIPMENT (Continued)

Construction Commitments

Contracts awarded but not yet completed were as follows:

<u>Project Description</u>	<u>Estimated Costs</u>
Slip #3 Improvements	\$ 92,694
Cargo Yard A	88,123
RFP Preparation & Response	30,888
Security Improvements – 4 th floor MOC	17,576
Master Plan Update	<u>15,918</u>
	<u>\$ 245,199</u>

NOTE 4 – LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Revenue bonds payable	\$47,680,401	\$	\$(2,224,258)	\$45,456,143	\$2,329,338
Less deferred amounts:					
For issuance discounts	(696,776)		46,332	(650,444)	
On refunding	(1,056,104)		91,233	(964,871)	
Total bonds payable	<u>45,927,521</u>		<u>(2,086,693)</u>	<u>43,840,828</u>	<u>2,329,338</u>
Compensated absences	325,476	352,786	(240,867)	437,395	253,689
Other post-employment benefits		12,858		12,858	
Accreted interest payable	<u>1,934,948</u>	<u>408,421</u>		<u>2,343,369</u>	
Total long-term liabilities	<u>\$48,187,945</u>	<u>\$774,065</u>	<u>\$(2,327,560)</u>	<u>\$46,634,450</u>	<u>\$2,583,027</u>

Interest Expense

The total interest costs paid and incurred by the Port for the fiscal year ended September 30, 2009, were \$1,966,891 and \$2,367,373, respectively. No interest was capitalized during the year.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Bonds (Continued)

The Port is authorized to issue Revenue Bonds for the purpose of constructing and financing modern Port facilities. At September 30, 2009, 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 \$72,285,265. Principal and interest paid for the year ended September 30, 2009 totaled \$4,191,149 and pledged gross revenues were \$10,596,465. At September 30, 2009, principal and interest to maturity in September 2026 to be paid from pledged future revenues totaled \$72,285,265.

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 less all Supplemental Revenues” are at least 110% of the maximum annual debt service requirement.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Improvement Bonds, Series 1999 A

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

In connection with the issuance of the Series 1999A Bonds, the Port proposed certain amendments to the Resolution adopted by the Port on May 17, 1977 (Original Resolution). The 1999 Resolution amends and supplements the Original Resolution. Certain types of amendments to the Original Resolution cannot become effective unless the Port has obtained the consent of the holders of two-thirds of the principal amount of the bonds then outstanding. Purchasers of the Series 1999A Bonds represent more than two-thirds of the bonds outstanding and by their purchase have consented to the amendments. The amendments provide, among other things, (i) the ability to pay debt service on the bonds with supplemental revenues; (ii) a more liberalized list of permitted investments; (iii) the ability of the Port to take into account, in determining compliance with the rate covenant and additional bond provisions of the Original Resolution, certain sources of income to the Port which are not derived from the operation of the Port Facilities; and (iv) a more flexible and expanded mechanism by which the Port may sell, lease or otherwise dispose of certain Port property.

Debt service requirements to maturity are as follows at September 30, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2010	\$ 795,000	\$ 948,899	\$ 1,743,899
2011	835,000	908,354	1,743,354
2012	880,000	865,560	1,745,560
2013	925,000	819,360	1,744,360
2014	970,000	770,335	1,740,335
2015-2019	5,705,000	3,012,087	8,717,087
2020-2024	7,440,000	1,271,050	8,711,050
	<u>\$ 17,550,000</u>	<u>\$ 8,595,645</u>	<u>\$ 26,145,645</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

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.

Debt service requirements to maturity are as follows at September 30, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2010	\$ 480,000	\$ 57,270	\$ 537,270
2011	490,000	39,510	529,510
2012	510,000	20,400	530,400
2013			
2014			
2015-2019			
2020-2024	2,573,297	5,241,703	7,815,000
2025-2026	2,468,538	6,231,462	8,700,000
	<u>\$ 6,521,835</u>	<u>\$ 11,590,345</u>	<u>\$ 18,112,180</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

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, 2009:

	Principal	Interest	Total Debt Service
2010	\$ 255,000	\$ 487,075	\$ 742,075
2011	260,000	478,150	738,150
2012	275,000	468,725	743,725
2013	590,044	683,369	1,273,413
2014	815,000	458,413	1,273,413
2015-2019	5,840,000	1,775,065	7,615,065
2020-2021	4,730,000	291,626	5,021,626
	<u>\$12,765,044</u>	<u>\$4,642,423</u>	<u>\$17,407,467</u>

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Revenue Refunding Bonds, Series 2007 (Continued)

Debt service requirements to maturity are as follows at September 30, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2010	\$ 799,338	\$ 378,386	\$ 1,177,724
2011	838,119	343,295	1,181,414
2012	871,172	306,501	1,177,673
2013	912,667	268,257	1,180,924
2014	953,233	228,191	1,181,424
2015-2018	4,244,735	476,079	4,720,814
	<u>\$8,619,264</u>	<u>\$2,000,709</u>	<u>\$10,619,973</u>

Bond Compliance

In accordance with the 1999, 2002, 2005 and 2007 Revenue Bond rate covenants and resolutions of the Board of Commissioners, the Port must fix, establish, maintain and collect rates, fees, rents or other charges for the services and facilities of, the Port, and revise the same from time to time whenever necessary, as will always provide in each year, Net Revenues, which shall be adequate to pay at least 125% of the maximum annual debt service requirements for all the Port's Revenue Bonds; and that such Net Revenues shall be sufficient to make all of the payments required by the terms of the Revenue Bonds, and that such rates, fees, rentals or other charges shall not be so reduced as to be insufficient for such purposes. Notwithstanding the foregoing, Net Revenues, less all Supplemental Revenues, shall always be adequate to pay, in each year, at least 110% of the maximum annual debt service requirements for all the Port's Revenue Bonds. The Port's bond counsel is of the opinion that 125% test would not apply if the Port had no Supplemental Revenues. Net revenues are gross revenues, after deduction only of operating expenses plus supplemental revenues. Supplemental Revenues are all revenues received by the Port pursuant to Section 320.20(3) Florida Statutes, as amended and supplemented and any other moneys received or accrued to the Port including but not limited to recurring grants (either federal or state) or State sharing revenues. For the fiscal year ended September 30, 2009, the Port had no supplemental revenues. The Port's Net Revenues for the current fiscal year were deficient by approximately \$1,861,000 in meeting the 110% rate covenant.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 4 – LONG-TERM LIABILITIES (Continued)

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). In March and April of 2009, Moody's Investors Service and Standard and Poor's lowered the insurance financial strength rating of Syncora Guarantee, Inc., to Ca with a developing out look and B3 with a negative out look, respectively.

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. In June 2009, Moody's Investors Service and Standard and Poor's lowered the insurance financial strength rating of National to Baa1 and A, respectively with a developing out look for both.

Fitch Ratings, for both Syncora Guarantee, Inc., MBIA Insurance Corporation, 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, 2009, the principal outstanding but considered extinguished under these funding arrangements is as follows:

Revenue Refunding Bonds, Series 1996A	<u>\$ 1,445,000</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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 5 – CONTRACTS AND CONTINGENCIES (Continued)

Collective Bargaining Agreement

The Port renewed its collective bargaining agreement with the National Association of Government Employees, which was effective as of October 1, 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

NOTE 6 – FEMA GRANTS

As a result of Hurricane Wilma, which hit the Port in October 2005, and Hurricanes Jeanne and Frances, which hit the Port in September 2004, the Port incurred substantial costs to repair and replace capital assets and clean up debris from these hurricanes. A significant portion of these costs were eligible for reimbursement from the state via pass-through funds from the Federal Emergency Management Agency (FEMA). For the year ended September 30, 2009, the Port recorded \$34,197 in FEMA operating grant revenue and a contingent liability of \$366,663 for FEMA reimbursements received that exceeded actual costs and did not include insurance recoveries that is included in accounts payable and accrued expense under the current liabilities section of the statement of net assets as of September 30, 2009. The projects have all been completed and are awaiting closeout reviews and/or final inspections by FEMA and the State of Florida.

NOTE 7 - FLORIDA PORTS FINANCING COMMISSION

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 7 - FLORIDA PORTS FINANCING COMMISSION (Continued)

(the“Loans”) to the Ports pursuant to separate loan agreements (the “Loan Agreements”) entered into between each of the Ports individually and the Commission.

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

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

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

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

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 7 - FLORIDA PORTS FINANCING COMMISSION (Continued)

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

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

NOTE 8 - LEASING ACTIVITIES

The Port has entered into operating leases with tenants for the use of space at various Port facilities including vacant land, buildings, terminals, offices and commercial space for periods up to 40 years. Generally, the leases are long-term leases that provide for minimum annual rentals and/or wharfage guarantees. (See also Note 10) Most leases contain a provision for periodic rental increases based on the Consumer Price Index. It is not reasonably practicable to segregate the value of assets associated with producing minimum rental revenue from the value of assets associated with the entire facility. Total revenues from long-term leases for the period ended September 30, 2009 was \$3,828,131.

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, 2009 are as follows:

2010	\$ 3,818,107
2011	3,717,573
2012	3,420,390
2013	2,614,571
2014	1,212,309
Thereafter	<u>9,239,590</u>
Total minimum future rentals	<u>\$ 24,022,540</u>

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 9 – 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, 2009**

NOTE 9 – 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.

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,

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Pension Plan - Defined Benefit (Continued)

Plan Description (Continued)

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 financial report that includes financial statements and required supplementary information for the FRS. 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, 2009**

NOTE 9 – 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, 2009**

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Florida Retirement System Pension Plan- Defined Benefit (Continued)

Funding Policy

The contribution rates by job class for the Port’s employees as a percentage of covered payroll at September 30, 2009, are as follows and include the 1.11% HIS rate and the 0.05% administrative fee:

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

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, 2007, 2008, and 2009 were \$213,678, \$211,957, and \$211,720 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, 2009**

NOTE 9 – 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, 2009, are as follows and include the 1.11% HIS rate and the 0.05% administrative fee:

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

The Port's contribution to the Florida Retirement System Investment Plan for the fiscal year ended September 30, 2009 was \$49,563 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, 2009**

NOTE 9 – 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, 2008 actuarial valuation for the fiscal year ending June 30, 2010 is 1.28% of active payroll (including DROP payroll). The State's funding policy requires a contribution rate that is different than the GASB required ARC, which is an accounting disclosure. To the extent the contribution rate required to fund the HIS Program is different than the computed ARC, adjustments in the Net Pension Obligation (NPO) will occur from year to year.

The most recent actuarial valuation of the HIS program as a defined benefit plan was completed on July 1, 2008. 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, 2010.

NOTE 10 - MAJOR CUSTOMERS

The Port had billings from one major customer providing more than 10% of the Port facilities revenue during the fiscal year ended September 30, 2009. The Port facilities revenue from this customer was as follows:

Tropical Shipping USA, LLC/Birdsall, Inc.	\$ 4,561,483
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NOTE 11 - RISK MANAGEMENT

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

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Port implemented Governmental Accounting Standards Board Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective October 1, 2008. The Port elected to implement prospectively, and the change in accounting principle had no effect on changes in net assets equity for prior periods. Retirees of the Port pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average. This implied subsidy constitutes other post employment benefits (OPEB) under GASB 45.

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The Port's annual other 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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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	\$ 9,161
Interest on normal cost	—
Amortization	3,697
Interest on amortization	—
Annual OPEB cost	<u>12,858</u>
Contributions made	—
Increase in net OPEB obligation	<u>12,858</u>
Net OPEB obligation October 1, 2008	—
Net OPEB obligation September 30, 2009	<u><u>\$ 12,858</u></u>

Trend Information

<u>Three-Year Trend Information</u>			
<u>Fiscal</u>	<u>Annual</u>	<u>Percentage of</u>	<u>Net</u>
<u>Year</u>	<u>OPEB</u>	<u>Annual</u>	<u>OPEB</u>
<u>End</u>	<u>Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
09/30/07	N/A	N/A	N/A
09/30/08	N/A	N/A	N/A
09/30/09	\$ 12,858	0.00%	\$ 12,858

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	0.0%
Covered payroll	\$2,646,757
UAAL as a percentage of covered payroll	2.9%

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

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. Because the fiscal year ended September 30, 2009 was the year of implementation of GASB 45 and the Port elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented. The Port has not contributed assets to the plan at this time.

Actuarial Methods and Assumptions

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

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

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.

**PORT OF PALM BEACH DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 13 – SUSEQUENT EVENTS

On December 24, 2009, Ocean Development I, LLC (dba Palm Beach Princess) filed for bankruptcy. In February 2010, the Palm Beach Princess ceased operations and all passenger revenues ended. The Port had sufficient security deposits and agency bonds to recover outstanding receivables at September 30, 2009.

On March 15, 2010, Celebration Cruise Operator, Inc., (dba Bahamas Celebration) began operations as a multi-day passenger cruise line to the Bahamas. The term of the agreement is five years with termination clauses.

REQUIRED SUPPLEMENTARY INFORMATION

**Port of Palm Beach District
 Required Supplemental Information
 Other Post Employment Benefits
 September 30, 2009**

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 only one year because GASB Statement No. 45 was implemented during the fiscal year ended September 30, 2009.

OTHER SUPPLEMENTARY INFORMATION

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$25,195,000 Revenue Refunding Bonds - Series 1999A
September 30, 2009

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2010	\$ 948,899	\$ 795,000	\$ 1,743,899
2011	908,354	835,000	1,743,354
2012	865,560	880,000	1,745,560
2013	819,360	925,000	1,744,360
2014	770,335	970,000	1,740,335
2015	718,925	1,025,000	1,743,925
2016	663,831	1,080,000	1,743,831
2017	605,781	1,135,000	1,740,781
2018	544,775	1,200,000	1,744,775
2019	478,775	1,265,000	1,743,775
2020	409,200	1,335,000	1,744,200
2021	335,775	1,405,000	1,740,775
2022	258,500	1,485,000	1,743,500
2023	176,825	1,565,000	1,741,825
2024	90,750	1,650,000	1,740,750
	<u>\$ 8,595,645</u>	<u>\$ 17,550,000</u>	<u>\$ 26,145,645</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$9,576,835 Revenue Refunding Bonds - Series 2002
September 30, 2009

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2010	\$ 57,270	\$ 480,000	\$ 537,270
2011	39,510	490,000	529,510
2012	20,400	510,000	530,400
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022	1,693,276	911,724	2,605,000
2023	1,749,258	855,742	2,605,000
2024	1,799,169	805,831	2,605,000
2025	3,080,844	1,269,156	4,350,000
2026	3,150,618	1,199,382	4,350,000
	<u>\$ 11,590,345</u>	<u>\$ 6,521,835</u>	<u>\$ 18,112,180</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$13,090,044 Revenue Refunding Bonds - Series 2005
September 30, 2009

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2010	\$ 487,075	\$ 255,000	\$ 742,075
2011	478,150	260,000	738,150
2012	468,725	275,000	743,725
2013	683,369	590,044	1,273,413
2014	458,413	815,000	1,273,413
2015	425,813	850,000	1,275,813
2016	391,813	885,000	1,276,813
2017	356,413	920,000	1,276,413
2018	319,613	955,000	1,274,613
2019	281,413	2,230,000	2,511,413
2020	192,213	2,320,000	2,512,213
2021	99,413	2,410,000	2,509,413
	<u>\$ 4,642,423</u>	<u>\$ 12,765,044</u>	<u>\$ 17,407,467</u>

PORT OF PALM BEACH DISTRICT
Bond Amortization Schedule
\$10,139,551 Revenue Refunding Bonds - Series 2007
September 30, 2009

<u>Year Ending September 30</u>	<u>Interest</u>	<u>Retirement of Bonds</u>	<u>Total</u>
2010	\$ 378,386	\$ 799,338	\$ 1,177,724
2011	343,295	838,119	1,181,414
2012	306,501	871,172	1,177,673
2013	268,257	912,667	1,180,924
2014	228,191	953,233	1,181,424
2015	186,344	992,830	1,179,174
2016	142,758	1,037,415	1,180,173
2017	97,216	1,080,987	1,178,203
2018	49,761	1,133,503	1,183,264
	<u>\$ 2,000,709</u>	<u>\$ 8,619,264</u>	<u>\$ 10,619,973</u>

PORT OF PALM BEACH DISTRICT
Schedule of Port Facilities Revenues
For the Fiscal Years Ended
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Wharfage	\$ 2,554,546	\$ 2,849,117
Rent	3,828,131	3,471,814
Dockage	1,276,999	1,179,018
Parking	260,731	193,691
Passenger wharfage	542,039	672,378
Storage	104,866	234,855
Water	147,423	145,322
Line handling	51,600	72,350
Miscellaneous	105,183	152,242
Switching	350,235	442,195
Licenses	87,600	78,000
Identification badging	76,928	164,782
Terminal operating fee	10,850	157,830
Security fee	607,676	651,655
Cargo terminal fee	397,558	411,588
Harbor master fee	68,415	54,110
Vessel bunkers	27,290	28,200
Total Port Facilities Revenue	\$ <u>10,498,070</u>	\$ <u>10,959,147</u>

PORT OF PALM BEACH DISTRICT
Schedule of Operating Expenses
For the Fiscal Years Ended
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
General expenses		
Insurance and surety bonds	\$ 699,560	\$ 788,572
Retirement	246,359	275,818
Group insurance	616,376	550,101
Other benefits	15,272	6,185
Audit and other accounting services	82,202	83,906
Bad debt expense		141,501
Trustee fees	11,324	10,785
Ad valorem taxes	642	
Consulting	145,583	35,313
Contingency	10,648	24,915
Miscellaneous	182	263
Total general expenses	<u>1,828,148</u>	<u>1,917,359</u>
Engineering and maintenance		
Salaries	535,805	600,280
Payroll taxes	39,640	48,359
Maintenance and repairs - buildings and grounds	364,071	400,884
Electricity	370,679	394,933
Water	253,029	271,690
Janitorial and trash removal	94,041	109,390
Maintenance and repairs - equipment	73,653	59,682
Dredging study	143,984	517,009
Engineering fees	6,000	13,697
Surveys and maps	10,660	11,445
Fuel and oil - port vehicles	31,181	55,112
Telephone	13,769	13,312
Uniforms	11,329	11,233
Shop maintenance and supplies	14,003	23,160
Miscellaneous	2,544	762
Total engineering and maintenance	<u>1,964,388</u>	<u>2,530,948</u>
Security		
Salaries	716,583	697,286
Payroll taxes	51,972	54,877
Contract services	769,124	930,053
Security equipment	37,851	27,848
Identification badges	96,886	113,243
Uniforms	6,248	12,716
Telephone	7,729	5,287
Maintenance and repairs	17,276	19,443
Miscellaneous	3,579	2,041
Total security	<u>1,707,248</u>	<u>1,862,794</u>

PORT OF PALM BEACH DISTRICT
Schedule of Operating Expenses (Continued)
For the Fiscal Years Ended
September 30, 2009 and 2008

	2009	2008
Administration		
Salaries	\$ 913,093	\$ 856,695
Payroll taxes	66,656	66,611
Telephone	34,269	30,333
Maintenance and repairs	12,310	8,624
Computer maintenance	7,301	17,790
Supplies, stationary and printing	19,774	28,858
Computer supplies	11,351	17,655
Postage	4,750	4,459
Training, seminars and consulting	32,581	22,568
Dues and subscriptions	395	960
Publications	2,113	1,893
Legal fees and expenses	104,258	157,621
Miscellaneous	4,383	5,430
Total administration	1,213,234	1,219,497
Business development		
Salaries	216,034	295,774
Payroll taxes	15,904	22,800
Retirement	23,749	30,945
Advertising and promotion	32,994	45,250
Trade development	48,126	111,662
Community relations	7,952	13,727
Travel	36,638	63,058
Dues and subscriptions	41,263	38,318
Publications	2,779	11,305
Miscellaneous	3,557	4,816
Total business development	428,996	637,655
Operations		
Salaries	275,645	236,425
Payroll taxes	20,280	17,616
Consulting - rail		7,630
Telephone	3,979	
Contract services - parking	8,937	1,151
Cruise line transportation	55,408	64,575
Maintenance and repairs - train	39,800	23,132
Maintenance and repairs - track	21,329	44,777
Switching Services	85,434	180,318
Fuel and oil - train	17,623	33,874
Equipment rental		6,305
Miscellaneous	2,092	12,756
Total operations	530,527	628,559
Amortization	89,535	97,034
Depreciation	4,181,306	3,660,573
Total operating expenses	\$ 11,943,382	\$ 12,554,419

PORT OF PALM BEACH DISTRICT
Schedule of Revenues and Expenses
For the Fiscal Years Ended
September 30, 2009 and 2008

	2009	2008
Revenue		
Port facilities	\$ 10,498,070	\$ 10,959,147
Expenses		
General expenses	1,828,148	1,917,359
Engineering and maintenance	1,964,388	2,530,948
Security	1,707,248	1,862,794
Administration	1,213,234	1,219,497
Business development	428,996	637,655
Operations	530,527	628,559
Operating expenses	7,672,541	8,796,812
Operating income before depreciation and amortization	2,825,529	2,162,335
Depreciation and amortization expense	4,270,841	3,757,607
Operating loss after depreciation and amortization	(1,445,312)	(1,595,272)
Non-operating revenues (expenses)		
Investment earnings	98,395	555,819
Grant revenue	252,057	836,505
Loss on disposition of assets	(20,889)	(2,012)
Radiation portal monitor transfers	(11,500)	(453,559)
Interest expense	(2,504,938)	(2,473,680)
Total non-operating revenues (expenses)	(2,186,875)	(1,536,927)
Income (loss) before contributions	(3,632,187)	(3,132,199)
Capital contributions - grants	377,020	9,090,868
Change in net assets	\$ (3,255,167)	\$ 5,958,669

PORT OF PALM BEACH DISTRICT
Budgetary Comparison Schedule
For the Fiscal Year Ended
September 30, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Operating revenues			
Wharfage	\$ 2,554,546	\$ 3,092,220	\$ (537,674)
Dockage	1,276,999	1,363,655	(86,656)
Parking	260,731	350,276	(89,545)
Passengers	542,039	543,050	(1,011)
Storage	104,866	365,705	(260,839)
Water	147,423	145,140	2,283
Line handling	51,600	106,095	(54,495)
Switching	350,235	399,220	(48,985)
Identification badging	76,928	83,070	(6,142)
Terminal operating fee	10,850	10,850	-
Cargo terminal fee	397,558	467,056	(69,498)
Harbor Master Fees	68,415	85,618	(17,203)
Security Fee	607,676	683,540	(75,864)
Licenses and Permits	87,600	79,150	8,450
Miscellaneous Income/Labor	105,183	92,930	12,253
Rent	3,828,131	4,056,194	(228,063)
Vessel Bunkers	27,290	33,631	(6,341)
Total operating revenues	<u>10,498,070</u>	<u>11,957,400</u>	<u>(1,459,330)</u>
 Operating expenses			
General expenses	1,828,148	1,881,146	(52,998)
Engineering and maintenance	1,964,388	1,960,957	3,431
Security	1,707,248	1,557,696	149,552
Administration	1,213,234	1,085,275	127,959
Business development	428,996	620,978	(191,982)
Operations	530,527	523,930	6,597
Amortization	89,535	135,845	(46,310)
Depreciation	4,181,306	4,130,900	50,406
Total operating expenses	<u>11,943,382</u>	<u>11,896,727</u>	<u>46,655</u>
 Operating income (loss)	<u>(1,445,312)</u>	<u>60,673</u>	<u>(1,505,985)</u>
 Non-operating revenue (expenses)			
Investment earnings	98,395	240,000	(141,605)
Grant revenue	252,057	150,000	102,057
Loss on disposition of assets	(20,889)		(20,889)
Radiation portal monitor transfers	(11,500)		(11,500)
Interest expense	(2,504,938)	(2,367,374)	(137,564)
Total non-operating revenue (expenses)	<u>(2,186,875)</u>	<u>(1,977,374)</u>	<u>(209,501)</u>
 Income (loss) before contributions	<u>(3,632,187)</u>	<u>(1,916,701)</u>	<u>(1,715,486)</u>
 Capital contributions - grants	<u>377,020</u>		<u>377,020</u>
 Change in net assets	<u>\$ (3,255,167)</u>	<u>\$ (1,916,701)</u>	<u>\$ (1,338,466)</u>

PORT OF PALM BEACH DISTRICT
Schedule of Operating Statistics
For the Fiscal Years Ended
September 30, 2009 and 2008
(Unaudited)

	<u>2009</u>	<u>2008</u>	<u>PERCENT CHANGE</u>
CARGO TONNAGE			
General Cargo			
Container	988,755	1,091,694	(9.43%)
Break-bulk	59,990	113,491	(47.14%)
Relay	68,990	113,835	
Sub-Total	<u>1,117,735</u>	<u>1,319,020</u>	(15.26%)
Bulk and Dry Cargo			
Asphalt	85,631	39,265	118.08%
Cement	10,829	125,665	(91.38%)
Diesel	111,415	127,179	(12.40%)
Fuel Oil	273,722	645,934	(57.62%)
Miscellaneous	10,800		n/a
Molasses	163,040	193,896	(15.91%)
Sugar	591,116	425,796	38.83%
Sub-Total	<u>1,246,553</u>	<u>1,557,735</u>	(19.98%)
TOTAL ALL CARGO	<u><u>2,364,288</u></u>	<u><u>2,876,755</u></u>	(17.81%)
Inbound	104,526	116,132	(9.99%)
Outbound	111,877	128,506	(12.94%)
TOTAL TEUs	<u><u>216,403</u></u>	<u><u>244,638</u></u>	(11.54%)
Inbound	8,220	9,951	(17.40%)
Outbound	8,242	9,862	n/a
TOTAL RAIL CARS	<u><u>16,462</u></u>	<u><u>19,813</u></u>	(16.91%)
VESSELS	<u><u>1,969</u></u>	<u><u>2,168</u></u>	(9.18%)
PASSENGERS	<u><u>349,800</u></u>	<u><u>424,204</u></u>	(17.54%)

COMPLIANCE SECTION



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 basic financial statements of the Port of Palm Beach District, as of and for the year ended September 20, 2009, and have issued our report thereon dated May 7, 2010. 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 Port of Palm Beach District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port of Palm Beach District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port of Palm Beach District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port of Palm Beach District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Port of Palm Beach District's financial statements that is more than inconsequential will not be prevented or detected by the Port of Palm Beach District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Port of Palm Beach District, in the accompanying Management Letter dated May 7, 2010.

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

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
May 7, 2010



NOWLEN, HOLT & MINER, P.A.

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

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We have audited the financial statements of the Port of Palm Beach District, as of and for the year ended September 30, 2009, and have issued our report thereon dated May 7, 2010.

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. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated May 7, 2010, should be considered in conjunction with this Management Letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which governs the conduct of local government entity audits in the State of Florida and requires that we address certain compliance and other matters in the Management Letter, if not already addressed in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

PRIOR YEAR COMMENTS

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

There was only one comment in the prior year. In the prior year, the Port's Net Revenues were deficient by approximately \$2,164,000 in meeting the 110% Revenue Bond rate covenant. During the current year, the Port's Net Revenues improved, but were still deficient by approximately \$1,861,000 in meeting the 110% rate covenant. This item is discussed further in the current year comments section.

CURRENT YEAR COMMENTS

Rules of the Auditor General, requires that we address in the Management Letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we noted the following item.

Rate Covenants

Condition: In accordance with the 1999, 2002, 2005 and 2007 Revenue Bond rate covenants and resolutions of the Board of Commissioners, the Port must fix, establish, maintain and collect rates, fees, rents or other charges for the services and facilities of, the Port, and revise the same from time to time whenever necessary, as will always provide in each year, Net Revenues, less all Supplemental Revenues, which shall always be adequate to pay, in each year, at least 110% of the maximum annual debt service requirements for all the Port's Revenue Bonds. The Port's Net Revenues for the current fiscal year were deficient by approximately \$1,861,000 in meeting the 110% rate covenant. We recommend that the Port monitor the bond rate covenant throughout the year so that appropriate actions can be taken to increase revenues or cut expenses to ensure future compliance.

Management Response: The Port of Palm Beach District has raised tariff rates to increase revenue, implemented staff reductions and brought selected services in-house to reduce operating costs and initiated an aggressive marketing campaign to both 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. This will significantly increase net revenues and cash flows. The Port is also currently in negotiations to fill the day cruise line which will replace the loss of the past day cruise line operator, Oceans Development I, LLC. (dba Palm Beach Princess).

Investment of Public Funds

Rules of the Auditor General, requires 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, requires that we address violations of laws, regulations, contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we noted that the Port's Net Revenues were not adequate to meet Revenue Bond rate covenants, as discussed above.

Matters Inconsequential to the Financial Statements

Rules of the Auditor General, requires for matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures; (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, 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, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, the results of our procedures did not disclose that the Port of Palm Beach District has met any of the conditions described in Section 218.503(1), 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, 2009. In connection with our audit, we noted that the two reports were in substantial agreement.

Financial Condition Assessment Procedures

Rules of the Auditor General, requires 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 less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2009. The Port was not required to have a federal single audit or a state single audit.

Response to Management Letter

We did not audit management's response to the Management Letter presented above and express no opinion on it

This Management Letter is intended solely for the information of the Port of Palm Beach District, members of the Port Commission, management, 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 & Miner, P.A.

West Palm Beach, Florida
May 7, 2010