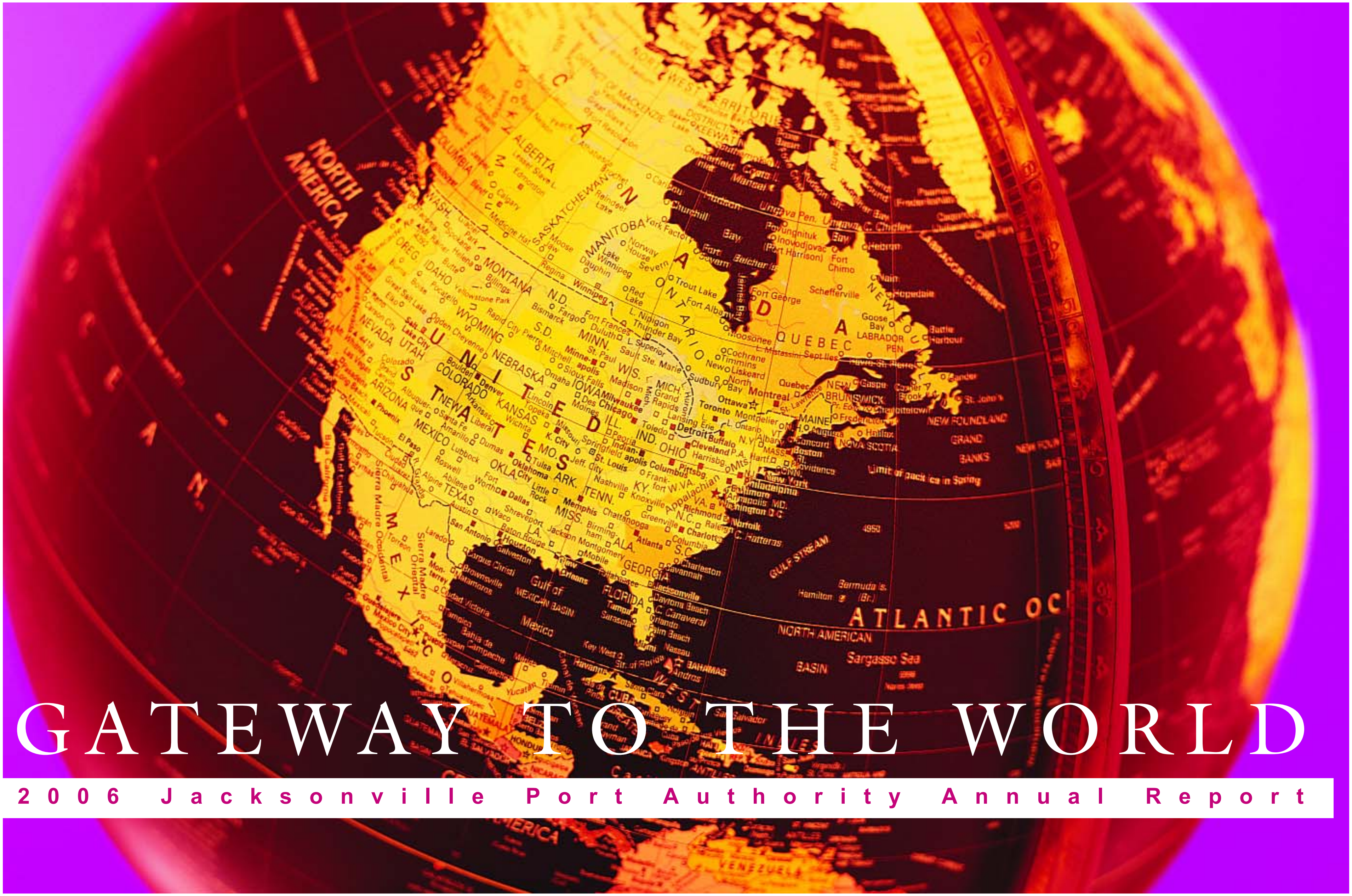
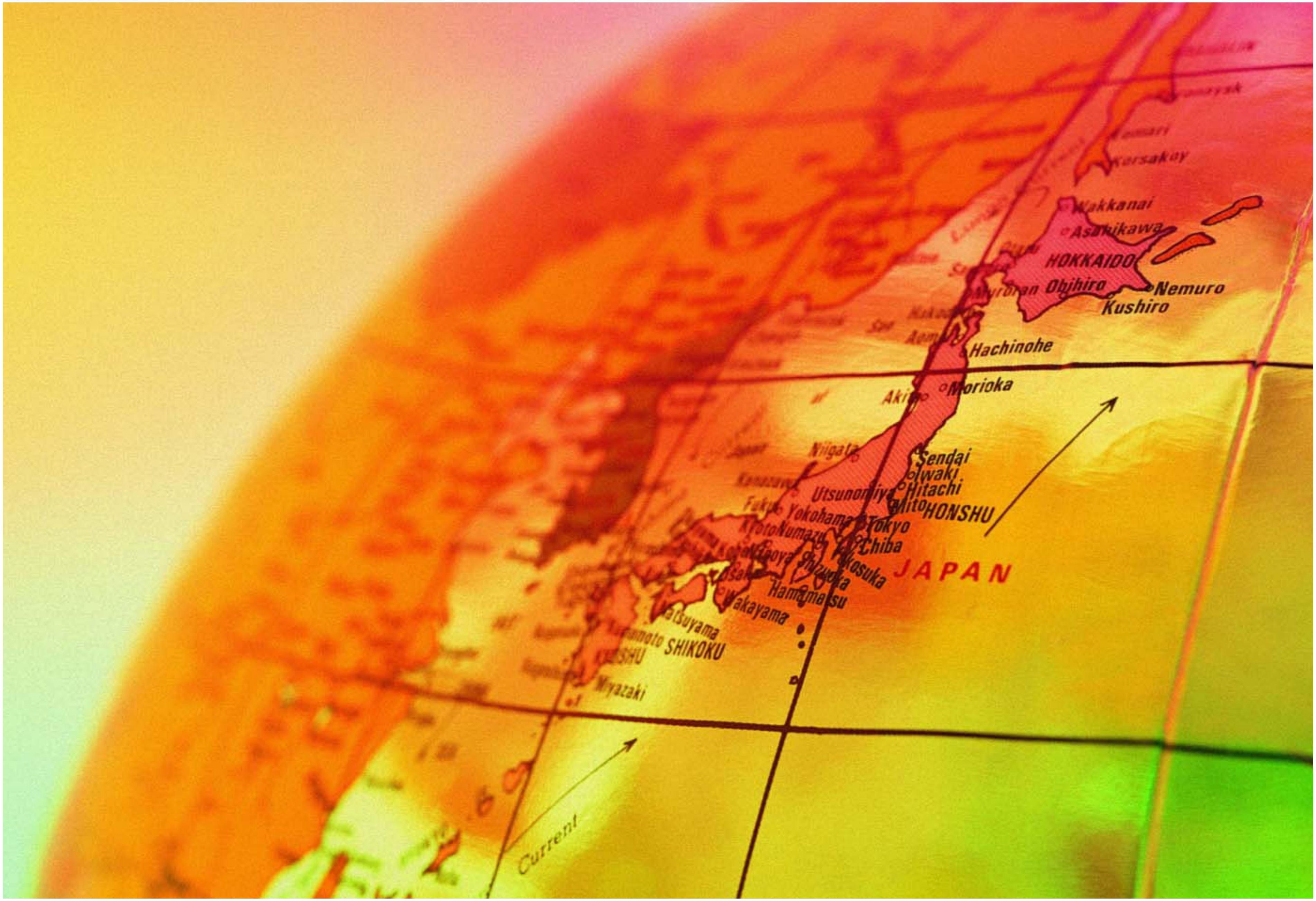


GATEWAY TO THE WORLD

2006 Jacksonville Port Authority Annual Report


HOKKAIDO
Nemuro
Kushiro
Hachinohe
Morioka
Sendai
Hitachi
HONSHU
Tokyo
Chiba
JAPAN
Hamamatsu
SHIKOKU
Miyazaki
Current

ABOUT JAXPORT

The Jacksonville Port Authority (JAXPORT) is an independent agency responsible for the development of public seaport facilities in Jacksonville, Florida. JAXPORT owns three cargo facilities and one passenger cruise terminal, all located along the St. Johns River: the Blount Island Marine Terminal, the Talleyrand Marine Terminal, the Dames Point Marine Terminal, and the JAXPORT Cruise Terminal. A network of privately-owned maritime facilities also operates in Jacksonville's harbor. Cargo and cruise activity at Jacksonville's seaport supports nearly 50,000 jobs and creates an economic impact of more than $2.7 billion annually for Northeast Florida.

VISION AND MISSION

The vision of the Jacksonville Port Authority is to be a major economic engine in Northeast Florida by continuing to be a premier diversified port in the Southeastern United States, with connections to all major trade lanes throughout the world.

The mission of the Jacksonville Port Authority is to contribute to the economic growth and vitality of Northeast Florida by fostering and stimulating commerce through the Port of Jacksonville. The mission will be accomplished through the effective and fiscally-responsible planning, development, management and marketing of the port's assets and facilities.

YEAR IN REVIEW

This annual report proclaims JAXPORT to be Northeast Florida's "Gateway to the World." A closer look reveals our reasoning.

Today, JAXPORT is the nation's No. 1 port for trade with Puerto Rico, the nation's second busiest vehicle handling port, and one of nation's top 15 container ports. In addition to existing cargo ship service to Africa, the Caribbean, Europe and South America, JAXPORT customers will soon enjoy direct container service with ports throughout Asia. Construction is now underway on a major new cargo terminal in North Jacksonville for this very purpose.

Few ports can match JAXPORT's strategic and geographic location in Northeast Florida, with quick access to three interstate highways and three major railroads leading to and from the U.S. hinterland. Cargo imported through JAXPORT is now distributed to nearly every U.S. state.

Meanwhile, passengers embarking in Jacksonville originate from all over the United States -- and a small percentage come from Canada, the United Kingdom and other countries. The number of passengers embarking here could eventually double or triple, with sailings to new ports of call.

Financially, JAXPORT is well-positioned to grow our position as a global gateway. In FY 2006, for the third consecutive year, JAXPORT enjoyed record annual operating revenues ($38.4 million), a 13 percent increase over the 2005 record ($34.0 million). Operating income before depreciation and amortization grew 15 percent to $10.4 million. Meanwhile, cargo shipped through JAXPORT grew to a record 8.6 million tons in FY 2006, our sixth consecutive year of cargo growth. Also in FY 2006, Moody's Investors Services assigned JAXPORT a financial rating of "A2" while Fitch Ratings assigned JAXPORT a rating of "A."

Against this strong financial backdrop, JAXPORT is well on its way to achieving its vision "to be a major economic engine in Northeast Florida by continuing to be a premier diversified port in the Southeastern United States, with connections to all major trade lanes throughout the world."

Welcome to JAXPORT: Gateway to the World.

Jerry W. Davis
Board Chairman

Rick Ferrin
Executive Director

2006 BOARD OF DIRECTORS

JAXPORT is governed by a seven-member Board of Directors. The Mayor of Jacksonville appoints four members, and the Florida Governor appoints three members. All current members originally were appointed in 2001 and were subsequently reappointed to new terms.

BOARD CHAIRMAN
Jerry W. Davis
Private Investor

BOARD VICE CHAIRMAN
Tony D. Nelson
President, First Coast Black Business Investment Corporation

BOARD TREASURER
Ricardo Morales, Jr.
Chairman, Morales Construction Company, Inc.

BOARD SECRETARY
Ambassador Marilyn McAfee
Foreign Service Careerist

BOARD MEMBER
T. Martin Fiorentino, Jr.
President, Fiorentino and Hewett

BOARD MEMBER
Thomas P. Jones, Jr.
Private Consultant

BOARD MEMBER
William C. Mason, Ed.D.
Foundation Executive Director, Florida Community College at Jacksonville

2007 Board of Directors

Tony D. Nelson
Board Chairman

Ricardo Morales, Jr.
Board Vice Chairman

Ambassador Marilyn McAfee
Board Secretary

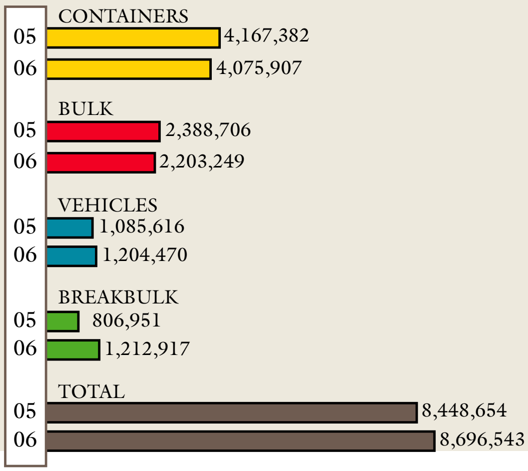
William C. Mason, Ed.D.
Board Treasurer

Jerry W. Davis
Board Member

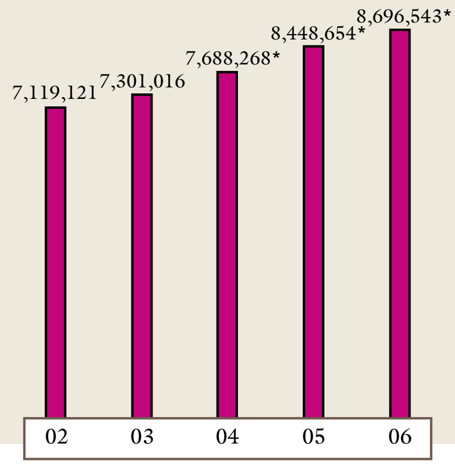
Thomas P. Jones, Jr.
Board Member

Vacant seat to be filled
Board Member

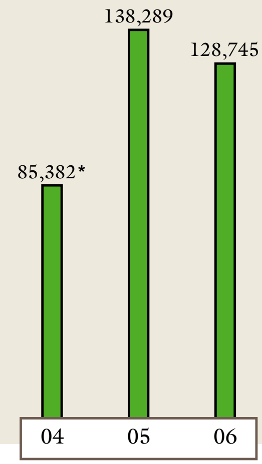
VITAL STATISTICS



JAXPORT TONNAGE
(In Metric Tons)



Cargo Tonnage
(In Metric Tons)
**Port Record*



Embarking Cruise Passengers
**Inaugural year of cruise service*

Total Tonnage (Imports + Exports)

North America 9% · Central America 2% · South America 36% · Caribbean 41% · Asia 3% · Europe 8% · Africa 1%


GRIMALDI LINES

ORGANIZATION

Board of Directors

Rick Ferrin
Executive Director

Ron Baker
Deputy Executive Director and Chief Financial Officer
- Information Technology
- Corporate Administration
- Finance and Accounting
- Contract Administration & Procurement
- Engineering Services

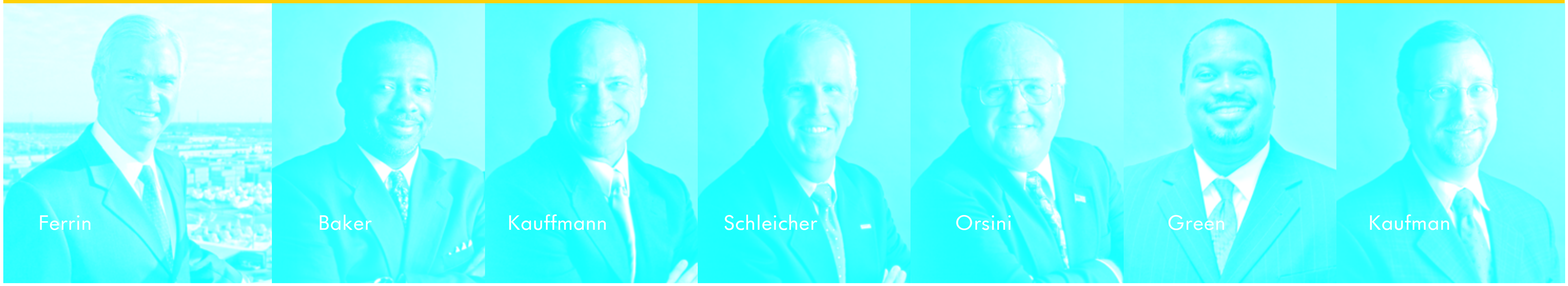
Chris Kauffmann
Senior Director of Terminal Operations and Security
- Port Security
- Terminal Operations

Roy Schleicher
Senior Director of Trade Development and Marketing
- Cargo Services
- Tenant Relations
- Market Research
- ForeignT rade Zone
- Cargo Statistics

Tony Orsini
Senior Director of Cruise Operations and Business Development
- Cruise Operations
- Cruise Line Marketing
- Cruise Terminal Maintenance

Eric Green
Senior Director of Government and External Affairs
- Government Affairs
- Community Outreach
- External Affairs

David Kaufman
Senior Director of Planning and Properties
- Planning and Properties
- Environmental Management



FINANCIAL HEALTH

The foundation of JAXPORT's continued success is its strong financial health.

JAXPORT earned a record $38.5 million in operating revenues in FY 2006, a 13 percent increase over FY 2005 ($34.0 million) and the port's third consecutive year of record revenues. Operating expenses rose to $28 million, up from $25 million the previous year. Operating income before depreciation and amortization grew to $10.4 million, up 15 percent from $9.0 million in FY 2005.

These financial results reflect JAXPORT's solid year operationally. Total cargo shipped through JAXPORT facilities grew to a record 8,696,543 tons in FY 2006, a three percent increase over last year's record 8,448,654 tons. This marks the sixth consecutive year of cargo growth at JAXPORT and the third straight year of record tonnage. Also in FY 2006, a total of 128,745 passengers embarked on cruise ships departing the JAXPORT Cruise Terminal, down slightly from the 138,289 embarkations in 2005, but up 50 percent over the 85,382 embarkations in 2004.

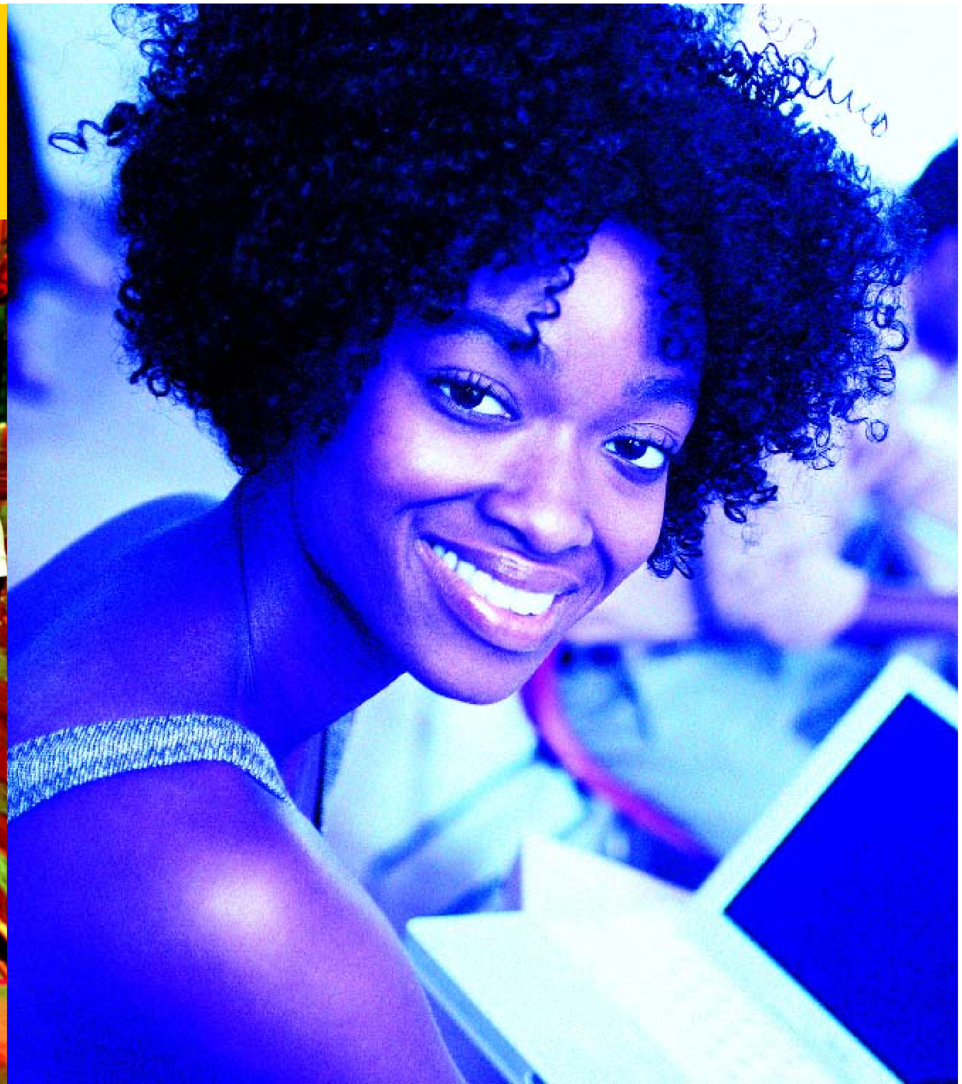
In 2006, Moody's Investors Services assigned JAXPORT a financial rating of "A2" while Fitch Ratings assigned JAXPORT a rating of "A." Both agencies noted JAXPORT's competitive position as a container port, its status as one of the nation's largest vehicle processing centers, and its diverse revenue streams supported by long-term contracts with private tenants.

JAXPORT's current major capital construction project is a new cargo facility now being built in Northeast Jacksonville for Mitsui OSK Lines and the company's terminal operating arm, TraPac. The $200 million project, slated for completion in the fall of 2008, is primarily funded through special purpose facilities bonds backed by Mitsui, city excise tax bonds, and a low-interest loan from the State Infrastructure Bank of Florida.

In addition to the Mitsui terminal, JAXPORT has budgeted approximately $50 million for other capital projects in FY 2006-2007.


NORTHWEST TERRITORIES
HUDSON BAY
MANITOBA
ONTARIO
QUEBEC
ALBERTA
C A N A D A
U N I T E D S T A T E S
M E X I C O
GULF OF MEXICO
CARIBBEAN SEA
N O R T H A T L A N T I C O C E A N
BERMUDA
CUBA
JAMAICA
CAYMAN
GREATER ANTILLES
DOMINICAN REPUBLIC
PUERTO RICO
ARUBA
GUATEMALA
BELIZE
HONDURAS
COSTA RICA
VENEZUELA
COLOMBIA

OCEAN PRINCE



ECONOMIC IMPACT

Jacksonville's bustling seaport is one of Northeast Florida's largest economic engines. According to 2006 figures compiled by the Pennsylvania-based consulting firm Martin Associates, Jacksonville's seaport generates nearly 50,000 direct and indirect area jobs.

Port jobs include everything from longshoremen, truck drivers and warehouse workers to engineering specialists, legal consultants, maintenance workers, and hundreds of similar support positions. Approximately 7,000 of these positions are held by employees of private firms operating directly at port terminals. An additional 43,000 jobs are held by area workers throughout Northeast Florida who support those directly employed at port facilities.

Additionally, Jacksonville's seaport generates approximately $2.7 billion in economic impact annually. This includes $1.3 billion of personal wages paid by port-related companies and re-spending by workers; $743 million in business revenue generated by port-related companies; $258 million generated in U.S. Customs revenue; $239 million in local purchases made by port-related businesses; and $119 million paid in state and local taxes by port businesses.

A separate economic impact study shows that the cruise industry supports more than 400 jobs in Northeast Florida and more than $40 million in annual economic impact. Jobs include those at the JAXPORT Cruise Terminal handling luggage, customer service, parking and security, as well as jobs generated in the community to support passengers and crew members, such as ground transportation and hospitality.

JAXPORT's vision is to be a major economic engine for Northeast Florida. The Port Authority hosts a free "Port Jobs" website (www.jaxport.com), listing job openings available at dozens of maritime companies doing business at the port.

CARGO HIGHLIGHTS

JAXPORT facilities recorded their busiest year ever in 2006, handling 8,696,543 tons of cargo, a three percent increase over the FY 2005 record 8,448,654 tons. This marks the port's third straight year of record cargo tonnage and sixth consecutive year of cargo growth. JAXPORT remains the nation's second busiest vehicle handling port and 13th busiest container port.

JAXPORT experienced strong gains in two of its four cargo types in 2006: the shipment of vehicles and other Ro/Ro cargoes -- primarily passenger cars, trucks and heavy equipment -- grew by 12 percent, with 609,967 units moving through JAXPORT. Additionally, breakbulk cargoes -- which include lumber, paper, steel, poultry and other non-containerized commodities -- jumped 50 percent to 1.2 million tons in 2006, largely on the strength of new paper imports. Meanwhile, containerized cargoes fell two percent to four million tons, or 768,239 container units (measured in 20-foot equivalent units, TEUs). Bulk cargoes -- including crushed limestone and other aggregates -- fell eight percent in 2006 to 2.2 million tons.

JAXPORT also made several significant business announcements in 2006.

One of JAXPORT's largest tenants, APM Terminals North America, signed a new 25-year lease with JAXPORT. The company, including its predecessor formerly known as SeaLand Service, Inc., has provided stevedoring and terminal operations services at JAXPORT since 1960. Additionally, Atlantic Container Line began a new roll-on, roll-off (Ro-Ro) service to West Africa, while Nordana Line (USA) Inc. began service from JAXPORT to the Mediterranean and West Africa.

JAXPORT is now constructing a new $200-million container terminal in Northeast Jacksonville for use by Mitsui OSK Lines and its terminal operating company, TraPac. When opened in 2008, the state-of-the-art terminal will provide direct container ship service between Jacksonville and ports throughout Asia, a critical new market for JAXPORT.

TRAPAC CONTAINER TERMINAL

In 2008, the Tokyo-based shipping line Mitsui O.S.K. Lines (MOL) will begin cargo service between JAXPORT and ports throughout Asia, providing Jacksonville's only direct container ship service with this region of the world. MOL and the company's terminal operator, TraPac, will operate from a new $200 million cargo facility now under construction at JAXPORT's Dames Point Marine Terminal in North Jacksonville.

MOL's new service to Asia is a driving force behind JAXPORT's role as the nation's new "Gateway to the World."

Most importantly, the new service is an economic boon for Jacksonville, creating more than 1,600 new private sector jobs in Jacksonville when the facility opens. Over time, supporting operations in trucking, distribution and related services could generate an additional 4,000 direct and indirect local jobs throughout the region. Home improvement and department stores are now looking to open distribution centers in Northeast Florida as the new port facility will provide them with a direct local link to their Asian suppliers.

The new cargo terminal will include docks, roads, buildings and port equipment needed to load and unload cargo ships, including two 1,200-foot berths, six Post-Panamax container cranes, and other infrastructure. The terminal -- initially 130 acres with room to expand to 158 acres or more -- will be a key operation for MOL's East Coast port activity, and it will be built using the latest technology in cargo handling systems. Ships will sail directly between this new facility in Jacksonville and ports throughout Asia (and eventually Latin America and Europe). Ships are expected to traverse both the Panama and Suez canals.

MOL cited several reasons for choosing Jacksonville for this service, including available land, an experienced port labor force, and the area's excellent intermodal connections, specifically Dames Point's proximity to State Road 105 (Heckscher Drive) and State Road 9-A leading to interstates and rail yards on Jacksonville's westside.

CRUISE HIGHLIGHTS

Cruise ships have been sailing from JAXPORT on a regular basis since 2003.

In 2006, a total of 128,745 passengers embarked on 78 voyages departing the temporary JAXPORT Cruise Terminal. All passengers boarded Carnival Cruise Line's 1,478-passenger ship *Celebration*, the only cruise ship providing year-round service at JAXPORT, for four and five-day cruises to Key West and the Bahamas (Freeport and Nassau).

Passengers give high marks to their cruise experience at JAXPORT. A total of 95 percent of passengers surveyed in 2006 said they would consider choosing Jacksonville again for their next cruise departure. Previously, both in 2004 and 2005, Carnival's Jacksonville embarkation team earned top honors in the company's annual guest comment card survey, which ranks embarkation personnel from the line's nine year-round homeports in a variety of service-related categories.

The 2006 survey also shows that passengers embarking in Jacksonville originate from every U.S. state, with a small percentage coming from Canada, the United Kingdom and other countries. Most passengers originate from the U.S. Southeast. JAXPORT is working to attract additional cruise ships to Jacksonville and is reviewing options to build a new, permanent cruise terminal. Marketing studies show that Jacksonville has the potential for a bright future in the cruise industry.


LEBRATION



OPERATIONS AND SECURITY

JAXPORT facilities include three cargo terminals and one cruise terminal, all located on the St. Johns River. Maintaining and securing these facilities -- encompassing some 1,500 acres of property -- requires work around-the-clock.

JAXPORT's comprehensive security program is designed to meet mandates of the "Florida Seaport Security Act" of 2001 and the federal "Maritime Transportation Security Act" (MTSA) of 2002. Even while featuring some of the nation's strictest port security measures, JAXPORT facilities remain among the most efficient in the South Atlantic.

For example, U.S. Customs and Border Protection operates Radiation Portal Monitors at JAXPORT, the first cargo port in Florida and fourth in the nation to have deployed the devices. Every truck exiting JAXPORT with a container drives through the large monitors, which scan the containers for neutron and gamma radiation, telltale signs of a Weapon of Mass Destruction.

Meanwhile, Jacksonville Sheriff's Officers complement dozens of private security personnel patrolling JAXPORT facilities, which are fully fenced and gated. Moreover, JAXPORT has fingerprinted and conducted background checks on thousands of port workers, all of whom are required by state law to carry photo identification badges.

JAXPORT security forces continue to receive state-of-the-art training in antiterrorism, small craft enforcement and related areas, all conducted by the U.S. Department of Homeland Security. Annually, JAXPORT solicits federal grants to fund critical and necessary port security infrastructure that will enhance security of JAXPORT and its tenants.

JAXPORT continues to work closely with numerous law enforcement agencies at the local, state and federal level, with the goal of advancing port security, all while ensuring efficient and cost-effective operations.


EMERGENCY EXIT

G I V I N G   B A C K

While JAXPORT is Northeast Florida's gateway to the world, some of our most important work takes place right here in Jacksonville:

In 2006, more than 5,000 Duval County Public School students enrolled in 12th grade economics began using a new curriculum based in part on cargo and cruise activity at Jacksonville's port. JAXPORT partnered with the public school system to create the dynamic curriculum called "Economics: Destination JAXPORT," a four-lesson education supplement incorporated into the full economics curriculum required of all high school seniors.

JAXPORT has unveiled a new "Port Jobs" area on its website (jaxport.com), providing a one-stop clearinghouse on the internet of job openings at maritime companies doing business at Jacksonville's bustling seaport. Visitors may search for port jobs, post résumés and learn about Jacksonville's port and local maritime companies -- all at one convenient Internet location.

JAXPORT employees, working through Big Brothers Big Sisters of Northeast Florida and Kessler Mentoring Connection, now serve as mentors for third and fourth grade students at R.L. Brown Elementary School.

During its annual charity drive in 2006, JAXPORT's 150 employees donated more than $45,000 to two charities: United Way of Northeast Florida, and Community Health Charities. Over the last three years, employees have donated more than $116,000 to the two local charities.

Annually, JAXPORT sponsors the City of Jacksonville's Manatee Protection Program, a Jacksonville University effort to gather manatee information and raise awareness among area boaters and residents of these gentle creatures. JAXPORT also helps to fund the Right Whale Early Warning System, a program of aerial surveys of the southeastern U.S. coast to locate and report positions of right whales to passing ships. In 2007, JAXPORT will donate $250,000 to the National Marine Fisheries Service for the mapping of vessel travel patterns and fish schools (the whales' source of food) off the coast of Jacksonville to help create a safer environment for this endangered species.

In 2006, JAXPORT and Greenscape of Jacksonville embarked on a new multi-year partnership to improve the tree canopy of Jacksonville and make the city a more environmentally desirable place to live. Dubbed "JAXPORT Plants," JAXPORT and Greenscape are planning and planting a series of landscape projects in Jacksonville over the

ON THE HORIZON

ENVIRONMENTAL STEWARDSHIP

JAXPORT is launching a new Port Environmental Management Program to guide our environmental stewardship as we grow the port. Key elements of the plan, formulated throughout 2006, include an environmental audit of air and water quality at the port; employee training on environmental management; and a commitment to environmental programming. Examples of key projects include an examination of how JAXPORT's operations affect the environment; creation of a new multi-year partnership with Greenscape of Jacksonville to improve the city's tree canopy; the continuation of our Marine Mammal Protection Program for the Western Indian Manatee and North Atlantic Right Whales; and support of the cruise industry's ocean protection programs designed to preserve and protect the world's oceans, rivers and waterways.

PLAN FOR NEW FACILITIES

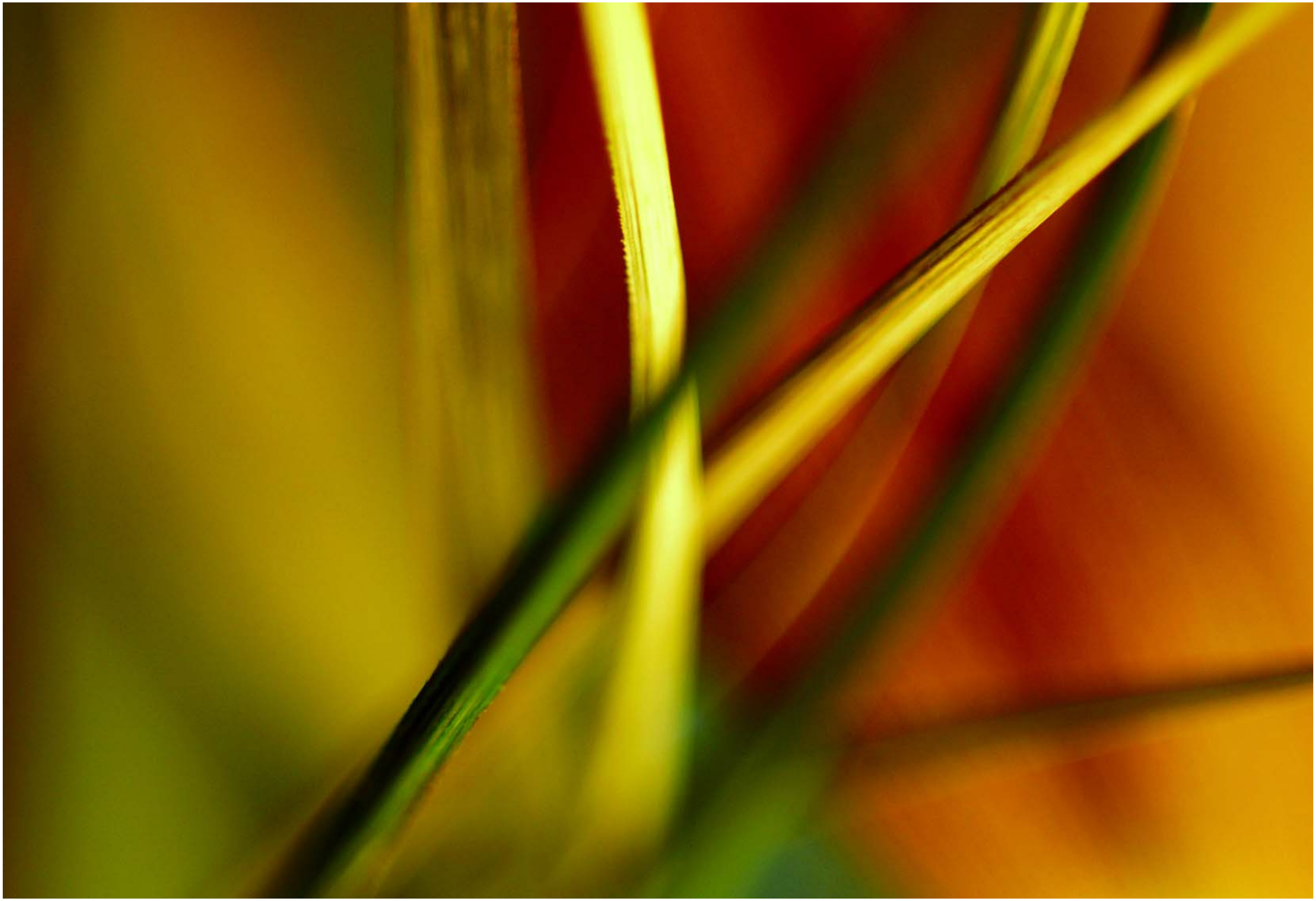
The most notable construction project underway at JAXPORT is a new cargo-handling facility being built in Northeast Jacksonville for Mitsui OSK Lines and its terminal operating partner, TraPac. The facility is scheduled to open in 2008 to accommodate new ship service with Asia (and eventually Europe and Latin America). In addition, new and existing customers at all JAXPORT facilities continue to grow their volumes, and JAXPORT is acquiring industrial waterfront property to help accommodate the new business.

DEEPEN THE ST. JOHNS RIVER

Plans are underway to deepen a 5.3 mile section of the St. Johns River's main shipping channel from its current depth of 38 feet to 40 feet. Once funding is approved, the project will begin and take about one year to complete. Jacksonville's entire 21-mile shipping channel will then be at a 40-foot depth. Also, JAXPORT has begun work with the federal government to examine the potential for additional deepening in the future.

GROW PASSENGER CRUISE SERVICE

One cruise line, Carnival Cruise Lines, currently offers year-round service from Jacksonville, embarking more than 128,000 passengers annually. JAXPORT is working to attract additional cruise lines to homeport or offer "port of call" visits to Northeast Florida.



2006 FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To Members of the Governing Body
Jacksonville Port Authority
Jacksonville, Florida

We have audited the accompanying financial statements of the Jacksonville Port Authority (the Authority), a component unit of the City of Jacksonville, Florida, as of and for the years ended September 30, 2006 and 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jacksonville Port Authority as of September 30, 2006 and 2005, and the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 28 through 34 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2007 on our consideration of the Authority's internal control over financial reporting and 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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

January 5, 2007
Melbourne, Florida

Berman Hopkins Wright & LaHam, CPAs, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Jacksonville Port Authority's (the "Authority") annual financial report presents a narrative overview and analysis of the Authority's financial performance during its most recent fiscal year, which ended September 30, 2006. The discussion is intended to assist the readers in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. All presented amounts are in thousands. We encourage readers to consider the information contained in this discussion in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

The Authority earned a record $38.5 million in operating revenues in FY 2006, a 13 percent increase over FY 2005 ($34.0 million) and the port's third consecutive year of record revenues. Operating expenses rose to $28 million, up from $25 million the previous year. Operating income grew to $10.4 million, up 15 percent from $9.0 million in FY 2005.

These financial results reflect the Authority's solid year operationally. Total cargo shipped grew to a record 8,696,543 tons in FY 2006, a three percent increase over last year's record 8,448,654 tons. This marks the sixth consecutive year of cargo growth at the Authority and the third straight year of record tonnage. Also in FY 2006, a total of 128,745 passengers embarked on cruise ships departing the Authority Cruise Terminal, down slightly from the 138,289 embarkations in 2005, but up 50 percent over the 85,382 embarkations in 2004.

In 2006, Moody's Investors Services assigned the Authority a financial rating of "A2" while Fitch Ratings assigned the Authority a rating of "A." Both agencies noted the Authority's competitive position as a container port, its status as one of the nation's largest vehicle processing centers, and its diverse revenue streams supported by long-term contracts with private tenants.

<u>2006 vs. 2005</u> *(all numbers expressed in thousands)*

The Authority's operating revenue for 2006 was $38,492, an increase of $4,394, 12.9% over prior year revenues of $34,098. Revenue categories showing most notable increases were Break Bulk, Containers, and Autos. Only Military revenues declined year to year, a line of business subject to fluctuation. In 2006, the Authority instituted a port security fee on all types of cargo. These new fees totaled $1,231 and are a part of the favorable increased revenue in 2006. Also of note, Other Operating revenue was favorably impacted in 2005 by a one-time revenue item (insurance refund of $1,078), otherwise this revenue category would have showed gains in 2006 of $603. Fiscal Year 2006 operating expenses (excluding depreciation and amortization) were $27,998, as compared to $25,048 in 2005, an increase expense of $2,950. The most notable increase was dredging expense ($4,757 in 2006 compared to $2,897 in 2005), an increase of $1,860, or 64 percent. Numerous other categories accounted for the remaining $1,100 increase, including property insurance premiums, legal expense, promotional and advertising, security costs, and utilities. As a result of the above factors, operating income before depreciation and amortization was $10,494, an increase of $1,444 over prior year. Depreciation and expense of ($5,462) as opposed to $2,210 net revenue in 2005. The $7,672 decline was primarily due to four factors: an asset impairment loss on two cranes of $5,287 (see footnote O), reduced FEMA grants of $1,157, reduced gain on asset sales of $962, and a reduction of shared revenue from City of $382.

Total capital contributions in 2006 were $538, down $1,509 from 2005 contributions of $2,047 as several grant-related projects were rescheduled to future years. At close of fiscal year 2006, the Authority had net assets (total assets minus total liabilities) of $284,524, a decrease of $10,271 compared to prior year net assets of $294,795.

<u>2005 vs. 2004</u> *(all numbers expressed in thousands)*
The Authority's total operating revenue for 2005 included operating revenues of $33,020, and a $1,078 insurance premium refund (reported as other operating revenue), for total reported revenue of $34,098. Note: The insurance premium refund pertains to a refund from the City of Jacksonville for overfunded workers compensation and general liability pools. As a result, total operating revenue of $34,098 increased 9.9% compared to $31,014 in the prior fiscal year. Fiscal year 2005 operating expenses (excluding depreciation and amortization) were $25,048, as compared to $22,443 in 2004, an 11.6% increase. Depreciation and amortization expense remained relatively steady. As a result, the Authority's operating loss decreased to $5,502 for the fiscal year ended September 30, 2005 compared to a loss of $6,425 for the previous fiscal year. The Authority recognized net non-operating revenue of $2,210 in fiscal year 2005 compared to net non-operating revenue of $393 in the prior year. 2005 non-operating revenue was positively impacted by a land sale gain of approximately $1 million and increased Shared revenue from primary government. Note: An adjustment to record additional Shared revenue from primary government revised the 2004 amount to reflect an additional $1,108, the result of a calculation error from prior periods. Additionally 2004 Operating expenses were previously overstated by $542, an amount which was subsequently determined to be properly classified as capital. Capital contributions decreased to $2,047 in 2005 from $4,642 in 2004. As a result of the above, the Authority's net assets decreased by $1,245 during fiscal year 2005 compared to a decrease of $1,390 in fiscal year 2004. At the close of fiscal year 2005, the Authority had net assets of $294,795, a decrease of $1,245 from the prior year net assets of $296,040.

OVERVIEW OF THE FINANCIAL STATEMENTS
This discussion is to introduce the Authority's financial statements. Since the Authority is engaged in a single business-type activity only, no fund level statements are shown. The basic financial statements also include notes essential to a full understanding of the statements.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference reported as net assets. The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of when cash flows may take place. As a result, some fiscal periods. The statement of cash flows represents cash and cash equivalent activity for the fiscal year, resulting from operating, non-capital financing, capital financing and investing activities. The net result of these activities is added to the beginning balance of cash and cash equivalents to reconcile to the ending balance of cash and cash equivalents at the end of the fiscal year.

Taken together, these financial statements demonstrate how the Authority's net assets have changed. Net assets are one way of assessing the Authority's current financial condition. Increases or decreases in net assets are good indicators of whether the Authority's financial health is improving or deteriorating over time. Other non-financial factors, such as diversity in the local economy, are important in evaluating the Authority's overall financial condition.

Notes to the financial statements

The notes provide additional information and explanation that is necessary for a full understanding of the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets

Net assets are a key indicator of an entity's financial position. At September 30, 2006, the Authority's net assets were $284,524, a decrease of $10,271 from the prior year net assets of $294,795. The majority of this decrease ($7,672) is attributable to Non-Operating activities: a $5,287 impairment loss on two cranes (see note O), reduced FEMA grants, a slight decline in shared revenue from city, and reduced gain on sale of assets. Fiscal year 2006 Capital contributions also declined $1,509 ($538 as compared to $2,047), as several grant funded projects were rescheduled to future years.

In terms of three-year trends, total assets have remained relatively constant, partly funded by high cash levels in 2004 resulting from the Blount Island military land sale, and subsequently funded in 2005 and 2006 through short-term borrowings of $14 million (within current liabilities). Outstanding bond debt has been paid down by approximately $4.4 million.

The Authority is engaged in a capital-intensive industry and, as such, its largest portion of net assets is invested in capital assets (e.g., land, buildings, heavy equipment, etc.). The next largest portion of the Authority's net assets is unrestricted. In addition, the Authority has net assets restricted for future debt service payments, future capital projects and other purposes.

Revenue, Expenses and Changes in Net Assets - 2006 vs. 2005

Operating revenue for fiscal year 2006 was $38,492 as compared to $34,098 in 2005, as detailed below:

Total operating revenue of $38,492 was an increase of $4,394 over fiscal year 2005.

(In thousands of dollars)	2006	2005	2004
NET ASSETS			
Current assets	$ 23,458	$ 27,201	$ 36,245
Noncurrent assets (excluding capital assets)	9,540	11,619	11,084
Capital assets	358,413	355,194	346,312
Total assets	391,411	394,014	393,641
Current liabilities	28,779	17,834	14,168
Revenue bonds outstanding (net of current portion)	70,017	72,287	74,428
Other noncurrent liabilities	8,091	9,098	9,005
Total liabilities	106,887	99,219	97,601
Net assets			
Invested in capital assets, net of related debt	263,799	269,974	256,618
Restricted for capital projects	-	-	-
Restricted for debt service	7,491	7,213	6,951
Restricted - other	329	212	198
Unrestricted	12,905	17,396	32,273
Total net assets	$ 284,524	$ 294,795	$ 296,040

significant were increases in Break Bulk, Container, and Auto related revenues. Military revenues declined $506, as driven by external factors. Included in 2006 revenues is port security fee revenue of $1,231, collected from all cargo types. This fee

	2006	2005	Inc/(Dec)
Operating Revenue	38,492	33,020	5,472
Other operating revenue - insurance premium adj	-	1,078	(1,078)
Total operating revenue	38,492	34,098	4,394

was implemented in 2006 specifically to help defray security costs. Fiscal year 2005 revenue included a favorable one-time insurance premium adjustment of $1,078.

Operating expenses, including depreciation and amortization, for fiscal year 2006 were $43,839, an increase of $4,239 over the prior fiscal year. Accounting for the largest increases were Dredging $1,860 ($4,757 in 2006 compared to $2,897 in 2005), and Depreciation and Amortization $1,288 (impacted by tenant facilities relocation from Blount Island project completed in late 2005). Services and Supplies increased $784, a result of increased property insurance premiums, legal expense (impacted by various legal issues) and consulting. Security costs were up $443. Other notable line items increases were Promotional and Advertising up $187 and Utilities up $150. Salaries and Benefits declined $542, primarily as 2005 included a special charge of $360 for converting city pension plan employees to social security, additionally there was an organization restructuring in mid-year 2005 that favorably impacted 2006. As a result, the operating loss for fiscal year 2006 was $5,347, as compared to $5,502 in fiscal year 2005.

In 2006, non-operating revenue (expense) was net ($5,462) expense compared to non-operating revenue of $2,210 in 2005. The net $7,672 decline is primarily due to four factors: recognition of an impairment loss on two cranes $5,287, reduced FEMA grants in 2006 ($359 vs $1,874 respectively), a decline in shared revenue from City of $382, and a land sale gain of approximately $1 million which occurred in 2005. Capital contributions decreased to $538 in 2006 from $2,047 in 2005 due to a rescheduling of construction projects to later years.

FINANCIAL ANALYSIS OF THE AUTHORITY (continued)

Revenue, Expenses and Changes in Net Assets - 2006 vs. 2005 (continued)

As a result of the items addressed above, the Authority experienced a $10,271 decrease in net assets during fiscal year 2006, as compared to a $1,245 decrease in

Revenue, Expenses and Changes in Net Assets - 2005 vs. 2004

Operating revenue for fiscal year 2005 was $34,098 as compared to $31,014 in 2004, as detailed below:

Operating revenue of $33,020 was an increase of $2,006 (6.4%) over 2004, and was primarily a result of increased Container activity and increased Cruise related revenue. The $1,078 reported as other operating revenue - insurance premium adjustment, pertains to a refund from the City of Jacksonville for overfunded workers compensation and general liability pools. Operating expenses, including depreciation and amortization, for fiscal year 2005 were $39,600, an increase of $2,161 (5.8%) over the prior fiscal year. The largest percentage increases were attributable to Dredging, Security Services, and Repairs and Maintenance expense. As a result, the operating loss for fiscal year 2005 was $5,502, as compared to $6,425 in fiscal year 2004.

	2005	2004	Inc/(Dec)
Operating Revenue	33,020	31,014	2,006
Other operating revenue - insurance premium adj	1,078	-	1,078
Total operating revenue	34,098	31,014	3,084

In 2005, non-operating revenue was $2,210 compared to non-operating revenue of $393 in 2004. The change is primarily the result of both a land sale gain of approximately $1 million and additional Shared revenue from primary government.

Capital contributions decreased to $2,047 in 2005 from $4,642 in 2004 due to a rescheduling of construction projects to later years.

As a result of the items addressed above, the Authority experienced a $1,245 decrease in net assets during fiscal year 2005, as compared to a $1,390 decrease in fiscal year 2004.

Cash Flows

2006 vs. 2005

Net cash provided by operating activities was $9,700, a $2,635 decrease from 2005. However, fiscal year 2005 was positively impacted by a $5,500 advance from a new tenant, Mitsui O.S.K. Lines, Ltd. (MOL), no additional advances were received in 2006. Otherwise, 2006 would have reflected increased operating cash flow, more reflective of additional revenues partly offset by additional payments to suppliers. Net cash provided by non-capital financing activities was $4,038, a $272 minor increase from 2005. Net cash used in capital and related financing activities was $18,733, a $10,174 decrease from 2005, primarily due to increased short-term borrowings in 2006 of approximately $10 million ($12 million compared to $2 million in

(In thousands of dollars)	2006	2005	2004
CHANGES IN NET ASSETS			
Operating revenue	$ 38,492	$ 33,020	$ 31,014
Other operating revenue - insurance premium adj	-	1,078	-
Total operating revenue	38,492	34,098	31,014
Operating expenses	43,839	39,600	37,439
Operating loss	(5,347)	(5,502)	(6,425)
Non-operating revenue (expense)	(5,462)	2,210	393
Loss before capital contributions	(10,809)	(3,292)	(6,032)
Capital contributions	538	2,047	4,642
Changes in net assets	(10,271)	(1,245)	(1,390)
NET ASSETS			
Beginning of year	294,795	296,040	297,430
End of year	$ 284,524	$ 294,795	$ 296,040

significant, totalling $23,074 and $26,758 respectively. Contributions-in-aid of construction declined $1,983 year to year, as several 2006 Capital Grant related projects were rescheduled to future years. Net cash provided by investing activities (and other) increased $134, partly as 2005 included expenses related to the Superbowl.

2005 vs. 2004

Net cash provided by operating activities was $12,335, a $3,387 increase from 2004. Accounting for the increase was a receipt for prepaid rent (related to a new tenant) of approximately $5,500, offset by anticipated payments to suppliers. Net cash provided by non-capital financing activities was $3,766, a $918 decrease from 2004. This decrease resulted from fewer receipts of Shared revenue from primary government, partly offset by increased grants, namely 2005 FEMA grants for dredging and other hurricane related claims. Net cash used in capital and related financing activities was $28,907, an $8,952 increase from 2004. Planned capital outlay in 2005 for Blount Island tenant relocation stemming from the Government Land sale in late 2003 was the predominant reason for the increase. Net cash provided by investing activities was $131, a $225 decrease from 2004, primarily as 2005 included certain financial commitments related to the Superbowl.

Budgetary Highlights

The City Council of the City of Jacksonville, Florida approves and adopts the Authority's annual operating and capital budget. The Authority did not experience any budgetary stress during the fiscal years ended September 30, 2006 and 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets include land, land improvements, channel improvements, utility transfers, buildings, other improvements and equipment.

2006 vs. 2005

The Authority had $358,413, net of accumulated depreciation, invested in capital assets as of September 30, 2006 compared to $355,194 as of September 30, 2005, a net increase of $3,219. Construction project spending totaled $22,202 (including design and clearing work for the new MOL terminal site of $14 million), partially offset by current year depreciation and allowance for impairment losses (see note O).

2005 vs. 2004

The Authority had $355,194, net of accumulated depreciation, invested in capital assets as of September 30, 2005 compared to $346,312 as of September 30, 2004. This investment increased by $8,882 (2.6%) from 2004 mostly due to $21,894 in construction projects including tenant relocation, partially offset by current year depreciation.

Long-Term Debt

2006 vs. 2005

As of September 30, 2006, the Authority had outstanding bonds payable of $72,572 (net of unamortized bond discounts and deferred loss on refunding) and outstanding capital lease obligations of $8,061. Outstanding bonds payable and capital lease obligations decreased by $2,140 and $944, respectively, during fiscal year 2006. This decrease was caused by regularly scheduled principal payments. The Authority exceeded its required minimum debt service ratio for the 2006 Fiscal Year.

2005 vs. 2004

As of September 30, 2005, the Authority had outstanding bonds payable of $74,712 lease obligations of $9,005. Outstanding bonds payable and capital lease obligations decreased by $1,906 and $805, respectively, during fiscal year 2005. This decrease was caused by regularly scheduled principal payments. The Authority exceeded its required minimum debt service ratio for the 2005 Fiscal Year.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability to each of those groups. Questions concerning any information included in this report or any request for additional information should be addressed to Director of Finance, Jacksonville Port Authority, P.O. Box 3005, Jacksonville, FL 32206-0005.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.Reporting entity

The Jacksonville Port Authority ("JPA") was created in 1963 by Chapter 63-1447 of the Laws of Florida, to own and operate marine facilities in Duval County, Florida. In 1967, the JPA was given the responsibility of owning and operating aviation facilities in Duval County, Florida. On October 1, 2001 Chapter 2001-319, Laws of Florida, created the Jacksonville Seaport Authority ("JSA") as successor to the JPA to own and operate the marine facilities and assume the assets and liabilities of the Marine Division Fund. In 2003, the JSA changed its legal name to the Jacksonville

STATEMENTS OF NET ASSETS

Jacksonville Port Authority
Statement of Net Assets
September 30,

(In thousands of dollars)	2006	2005
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	$ 5,142	$ 10,094
Due from primary government	5,206	3,681
Accounts receivable, net of allowance	3,578	3,438
Other receivables	476	772
Grants receivable	2,591	3,222
Inventories and other assets	1,496	1,279
Restricted cash and cash equivalents	4,338	4,207
Other restricted assets	631	508
Total current assets	23,458	27,201
Noncurrent assets		
Dredged soil replacement rights, net	1,747	2,085
Bond issuance costs, net	1,677	1,861
Due from primary government	554	2,160
Other noncurrent assets	-	203
Restricted cash and cash equivalents	3,884	3,793
Restricted investments	1,678	1,517
Capital assets, net	358,413	355,194
Total noncurrent assets	367,953	366,813
Total assets	391,411	394,014
LIABILITIES		
Current liabilities		
Accounts payable	2,679	1,925
Accrued expenses	1,022	1,443
Line of credit	14,017	1,983
Capital lease obligations	892	840
Accrued interest	1,939	2,001
Deferred revenue	3,262	5,237
Construction contracts payable	1,574	1,317
Retainage payable	67	13
Other current liabilities	772	650
Current liabilities payable from restricted assets - bonds and notes payable	2,555	2,425
Total current liabilities	28,779	17,834
Noncurrent liabilities		
Insurance reserve	200	200
Accrued expenses - non current	722	733
Bonds and notes payable, net of original issue discount of $2,025 and $2,174 in 2006 and 2005, respectively, and net of deferred loss on refunding of $1,708 and $1,843 in 2006 and 2005, respectively	70,017	72,287
Capital lease obligations	7,169	8,165
Total noncurrent liabilities	78,108	81,385
Total liabilities	106,887	99,219
NET ASSETS		
Invested in capital assets, net of related debt	263,799	269,974
Restricted for		
Debt service	7,491	7,213
Other	329	212
Unrestricted	12,905	17,396
Total net assets	$ 284,524	$ 294,795

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Jacksonville Port Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years ended September 30,

(In thousands of dollars)	2006	2005
OPERATING REVENUE		
Operating revenue	$ 38,492	$ 33,020
Other operating revenue - insurance premium adjustment	-	1,078
Total operating revenue	38,492	34,098
OPERATING EXPENSES		
Salaries and benefits	11,455	11,997
Services and supplies	4,021	3,237
Security services	3,789	3,346
Business travel and training	261	214
Promotions, advertising, dues and membership	964	777
Utility services	902	752
Repairs and maintenance	1,688	1,753
Dredging	4,757	2,897
Bad debt expense	100	36
Miscellaneous	61	39
Total operating expenses	27,998	25,048
Operating income before depreciation and amortization	10,494	9,050
DEPRECIATION AND AMORTIZATION EXPENSE	15,841	14,552
Operating loss	(5,347)	(5,502)
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(4,641)	(4,809)
Investment income	688	512
Shared revenue from primary government	3,600	3,982
Operating grants	359	1,874
Gain (loss) on sale of assets	56	1,020
Asset Impairment Loss	(5,287)	-
Other	(237)	(369)
Total non-operating revenue (expense)	(5,462)	2,210
Loss before capital contributions	(10,809)	(3,292)
CAPITAL CONTRIBUTIONS	538	2,047
Change in net assets	(10,271)	(1,245)
NET ASSETS		
Beginning of year	294,795	296,040
End of year	$ 284,524	$ 294,795

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Jacksonville Port Authority
Statement of Cash Flows
Years ended September 30,

(In thousands of dollars)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 36,574	$ 36,377
Receipts from primary government	851	427
Payments to suppliers	(15,879)	(12,868)
Payments to/for employees	(11,846)	(11,601)
Net cash provided by operating activities	9,700	12,335
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from operating grants	1,208	1,466
Receipts from primary government	2,830	2,300
Net cash provided by noncapital financing activities	4,038	3,766
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(23,074)	(26,758)
Principal paid on capital debt	(3,369)	(2,995)
Interest paid on capital debt	(4,689)	(4,580)
Proceeds from sale of assets	56	1,201
Contributions-in-aid of construction	320	2,303
Short-term borrowings	12,023	1,922
Net cash used in capital and related financing activities	(18,733)	(28,907)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	643	530
Purchase of investment securities	(2,764)	(945)
Proceeds from sale and maturities of investment securities	2,622	950
Other	(236)	(404)
Net cash provided by investing activities	265	131
Net decrease in cash and cash equivalents	(4,730)	(12,675)
CASH AND CASH EQUIVALENTS		
Beginning of year	18,094	30,769
End of year	$ 13,364	$ 18,094
RECONCILIATION OF OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income before depreciation and amortization	$ 10,494	$ 9,050
Adjustment to reconcile operating income before depreciation and amortization to net cash provided by operating activities		
Provision for uncollectible accounts	100	36
Changes in assets and liabilities:		
Account receivable and other current assets	591	(2,864)
Accounts payable, accrued expenses and other current liabilities	(1,485)	613
Initial MOL contract payment	-	5,500
Net cash provided by operating activities	$ 9,700	$ 12,335

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Authority is governed by a seven-member board. Three board members are appointed by the Governor of Florida and four are appointed by the Mayor and confirmed by the City Council of the City of Jacksonville, Florida.

The Authority is a component unit of the City of Jacksonville, Florida, (the "City") under Governmental Standards Board Statement No. 14, The Financial Reporting Entity. The Authority's financial statements include all funds and departments controlled by the Authority or which are dependent on the Authority. No other agencies or organizations have been included in the Authority's financial statements.

2.Basic financial statements

The Authority is considered a special purpose government engaged in a single business-type activity. Business-type activities are those activities primarily supported by user fees and charges. As such, the Authority presents only the statements required of enterprise funds, which include the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows.

3.Fund structure

The Authority's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording assets and other financing resources, together with liabilities and residual equities or balances, and changes therein. The Authority maintains a proprietary fund, which reports transactions related to activities similar to those found in the private sector.

Proprietary funds distinguish operating revenues and expenses from non-operating revenue and expenses. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the funds' principal ongoing operation. The principal operating revenue for the Authority's proprietary fund are charges to customers for sales and services. Operating expenses include direct expenses of providing the goods or services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

4.Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider are met.

Revenue collected on an advance basis, including certain federal grant revenue, to which the Authority does not yet have legal entitlement, are not recognized as revenue until the related commitment arises.

The Authority's policy is to use restricted resources first, then unrestricted resources, when both are available for use to fund activity.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

5. Budgeting procedures

The Jacksonville Port Authority's charter and related amendments, Council resolutions and/or Board policies have established the following budgetary procedures for certain accounts maintained within its enterprise fund. These include:

- Prior to July 1 of each year, the Authority shall prepare and submit its budget to the City Council for the ensuing fiscal year.

- The Council may increase or decrease the appropriation requested by the Authority on a total basis or a line-by-line basis; however, the appropriation from the Council for construction, reconstruction, enlargement, expansion, improvement or development of any marine project or projects authorized to be undertaken by the Authority, shall not be reduced below $800,000.

- Once adopted, the total budget may only be increased through action of the Council.

- The Authority is authorized to allocate, allot and transfer within, but not between (unless less than $50,000 cumulative) Operating/Non-Operating Schedules and the Capital Schedule as needed. Once the $50,000 limit is reached between schedules, City Council approval must be obtained. Operating budget item transfers may be made with the approval of the Executive Director or the Deputy Executive Director/Chief Financial Officer. Line-to-Line capital budget transfers of $50,000 or less must be approved by the Executive Director or the Deputy Executive Director/Chief Financial Officer. Line-to-Line capital budget transfers of more than $50,000 must have Executive Director, or Deputy Executive Director/Chief Financial Officer approval and Board notification is required. If a Capital Budget Transfer is creating a new capital project greater than $1,000,000, that did not exist on the original submitted capital budget for the fiscal year, Board approval is required.

All appropriations lapse at the end of the fiscal year. Operating budget appropriat-ed.

6. Unrestricted cash and cash equivalents

Cash and cash equivalents consist of demand deposits, money market funds and the Florida State Board of Administration investment pool. Cash equivalents are investments with a maturity of three months or less when purchased.

7. Investments

All investments are stated at fair value, in accordance with GASB Statement No. 31.

8. Capital assets

Capital assets are carried at cost, including capitalized interest, less accumulated depreciation. Capital assets are defined by the Authority as assets with an individual cost of $2,500 or greater and an estimated useful life three years or greater.

Due to the prior industrial uses of Authority property and the suspected risks of contamination, land remediation costs are capitalized as land costs as the instances of contamination are identified and remediated. At present, the Authority has no known exposure or specific findings which would indicate potential liability.

Capital assets, including assets acquired by issuance of capitalized lease obligations, are depreciated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows:

Asset Class	Estimated Service Life(Years)
Buildings	20-30
Other improvements	10-50
Equipment	3-25

When capital assets are disposed of, the related cost and accumulated depreciation are removed with gains or losses on disposition reflected in current operations.

9. Inventories

Inventories are stated at cost using the average cost method.

10. Dredged soil replacement rights

In 1988, the Authority paid approximately $8,400,000 for Buck Island in order to use the land as a dredging soil site. Subsequently, the property was deeded to the State of Florida and, in turn, the Authority began leasing the property under a renewable lease for $1.00 per year. This lease gives the Authority the right to allow removal of borrow material from the property to be used on public projects for a maintenance fee of $.25 per cubic yard. The Authority recorded this transaction as an intangible asset to be amortized using the straight-line method over the estimated useful life of the rights acquired, which is 25 years.

The cost of periodic maintenance dredging of berthing areas adjacent to the Authority's wharves and of certain shipping channels not maintained by the federal government is expensed as incurred.

11. Bond issuance costs

The costs incurred in connection with the issuance of the various bonds outstanding are being amortized over the life of the related bonds.

12. Compensated absences (accrued leave plan)

Compensated absences are absences for which employees will be paid, such as vacation, or sick leave. Employees also have the option to sell accrued leave within certain guidelines. Individual leave accrual rates vary based upon position and years of service criteria. The Authority's accrued leave plan liability at the end of fiscal years 2006 and 2005 was $1,052,000 and $977,000, respectively. Maximum leave accrual balances cap at 520 hours for employees hired after October 1, 1997 and 1,000 hours for employees hired prior to that date. Additionally, non-union employees are required to take 40 consecutive hours of leave on an annual basis.

13. Shared revenue from primary government

Shared revenue from primary government represents the Authority's share of the telecommunications tax received by the City of Jacksonville ("City") and millage payments from the Jacksonville Electric Authority ("JEA") pursuant to City Ordinance Code and the November 1, 1996 Interlocal Agreement between the City and the Authority. Pursuant to a Memorandum of Agreement, the City and the Authority agreed to allow the Authority to use future excess funds for any purpose it desires and to maintain a reserve fund of $3,500,000 for debt shortfall payments.

The Authority's share of the telecommunications tax was $3,600,000 and $3,800,000 in 2006 and 2005, respectively.

14. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

15. Reclassifications

Certain reclassifications were made to the 2005 financial statement presentation in order to conform to the 2006 financial statement presentation.

NOTE B - CASH AND INVESTMENTS

The Authority's Board of Directors has authorized the Authority to invest in obligations of the U.S. Government and certain of its agencies, repurchase agreements, investment grade commercial paper, money market funds, corporate bonds, time deposits, bankers' acceptances, state and/or local debt, and the Florida State Board of Administration Investment Pool. Restricted bond proceeds are invested in accordance with the bond indenture agreements.

Restricted cash and cash equivalents and investments must be used for renewal and replacement of existing facilities, construction and acquisition of property and equipment or replacement of outstanding bonds.

The Authority minimizes its Custodial Risk by ensuring cash, consisting of bank balances on deposit, is entirely insured or collateralized with securities held by the Authority's agent in the Authority's name. Cash on deposit for operating activities, including interest bearing accounts, are held in qualified public depositories pursuant to State of Florida Statutes, Chapter 280, which require these depositories to maintain certain pledged collateral for these deposits. Any losses to public depositors are covered by applicable deposit insurance and securities pledged as collateral, pursuant to the above referenced statute.

The Credit Risk assumed on investments held as of September 30, 2006, was A1 for Commercial Paper and AAA for FNMA holdings.

The composition of securities held by the Authority as of September 30, 2006 poses Concentration Risk as both investments exceed the five percent concentration standard established by GASB 40. The Authority's investment policy allows the Authority to invest 100 percent of available funds in Federal Instrumentalities (United States Government sponsored agencies), with a maturity of five years or less.

The Authority has minimal Interest Rate Risk as all of its investments have maturity dates of less than one year. The Authority's investment policy requires the Authority to limit its weighted average duration of its portfolio to three years or less.

Schedule of Investments Held: *(in thousands)*

Security Type:	Fair Value at September 30, 2005	Purchases	Sales	Change in Fair Value	Fair Value at September 30, 2006	Cost at September 30, 2006
FNMA	-	1,085	-	2	1,087	1,085
FHLB	945	-	(950)	5	-	-
FHLMC	572	-	(580)	8	-	-
Commercial Paper	-	1,679	(1,092)	4	591	587
Total	1,517	2,764	(2,622)	19	1,678	1,672

Interest Rate Risk (Specific Identification Method): *(in thousands)*

Security Type:	Fair Value at September 30, 2006	Cost at September 30, 2006	Maturity Date	Fixed Rate of Interest
FNMA	1,087	1,085	Aug-07	4.875%
Commercial Paper	591	587	Feb-07	5.27%
Total	1,678	1,672		

NOTE C - CAPITAL INVESTMENTS

Capital asset activity for the years ended September 30, 2006 and 2005 was as follows:

NOTE D - CAPITALIZATION OF INTEREST

The Authority capitalizes interest expense on construction in progress under FASB Statement No. 62. Capitalization of interest costs in situations involving tax-exempt borrowings and certain grants is applicable when "specified qualifying assets" are constructed with proceeds that are externally restricted. Interest costs are netted

The capitalization period is from the time of the borrowing until the completion of the project.

The following schedule summarizes capitalization of interest for the Authority for the fiscal years ended September 30, 2006 and 2005:

NOTE E - LEASING OPERATIONS

2006 *(in thousands)*	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 105,858	$ -	$ -	$ 105,858
Construction in progress	36,645	22,729	(25,994)	33,380
Total capital assets not being depreciated	142,503	22,729	(25,994)	139,238
Other capital assets				
Buildings	54,696	15,870	-	70,566
Improvements	241,432	3,158	-	244,590
Equipment	76,163	7,848	(6,123)	77,888
Equipment under capital leases	22,242	-	-	22,242
Total other capital assets at historical cost	394,533	26,876	(6,123)	415,286
Less accumulated depreciation for:				
Buildings	23,838	2,703	-	26,541
Improvements	107,514	8,409	-	115,923
Equipment	45,631	3,919	(836)	48,714
Equipment under capital leases	4,859	74	-	4,933
Total accumulated depreciation	181,842	15,105	(836)	196,111
Other capital assets, net	212,691	11,771	(5,287)	219,175
Capital assets, net	$ 355,194	$ 34,500	$ (31,281)	$ 358,413

2005 *(in thousands)*	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 105,424	$ 614	$ (180)	$ 105,858
Construction in progress	20,244	21,914	(5,513)	36,645
Total capital assets not being depreciated	125,668	22,528	(5,693)	142,503
Other capital assets				
Buildings	54,541	199	(44)	54,696
Improvements	238,072	3,360		241,432
Equipment	73,776	2,391	(4)	76,163
Equipment under capital leases	22,242	-	-	22,242
Total other capital assets at historical cost	388,631	5,950	(48)	394,533
Less accumulated depreciation for:				
Buildings	21,994	1,888	(44)	23,838
Improvements	99,323	8,191		107,514
Equipment	42,705	2,929	(3)	45,631
Equipment under capital leases	3,965	894	-	4,859
Total accumulated depreciation	167,987	13,902	(47)	181,842
Other capital assets, net	220,644	(7,952)	(1)	212,691
Capital assets, net	$ 346,312	$ 14,576	$ (5,694)	$ 355,194

Minimum future rental income for each of the next five years and thereafter, excluding contingent or volume variable amounts on noncancelable operating facility leases at September 30, 2006, are as follows:

(Amounts in thousands)	
2007	$ 13,715
2008	11,091
2009	9,382
2010	6,723
2011	5,790
Thereafter	51,566
	$ 98,267

The Authority receives contingent rentals under certain leases if cargo throughput receipts exceed minimum amounts. Contingent rentals or volume variable amounts of $773,000 and $558,000 were received in 2006 and 2005, respectively.

NOTE F - PENSION PLANS

1. State pension plan

Plan description

The majority of the full-time employees of the Authority participate in the Pension Plan of the Florida State Retirement System (the "System"), a cost sharing multiple-employer defined benefit public retirement system. Certain "special risk" employees who retire at or after age 55, with six years of creditable service and all other employees who retire at or after age 62, with six years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to the product of 1) average monthly compensation in the highest five years of creditable service; 2) years of creditable service; and 3) the appropriate benefit percentage. Benefits fully vest upon reaching six years of creditable service. Vested employees may retire after six years of creditable service and receive reduced retirement benefits.

(In thousands of dollars)	2006	2005
Total interest expense incurred	$ 4,918	$ 4,809
Interest expense associated with construction	(277)	-
Net interest expense incurred	$ 4,641	$ 4,809

The System also provides death and disability benefits. Benefits are established by Florida Statute. The System issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Florida State Retirement System, Division of Policy, Cedars Executive Center Building C, 2639 North Monroe Street, Tallahassee, Florida 32399-1560, attention Research and Education, or by calling (850) 414-6349.

Some of the Authority's employees elect to participate in the System's Investment Plan instead of the Pension Plan. The Investment Plan is a defined contribution plan with shorter vesting requirements (one-year). Funding of the Investment Plan is identical to the Pension Plan.

Funding policy

Regardless of which System plan an employee selects, the Authority is required by Florida Statute to contribute 13.12 percent of senior management, 10.91 percent of deferred retirement option participants (DROP) and 9.85 percent of all other employee earnings. Covered employees are not required to make contributions to the System.

Plan description

Nine Authority employees are participants in the City of Jacksonville pension plan. No further employees, either current or future, are eligible to participate in this plan.

Funding policy

The Authority makes required contributions to the city pension plan, which was 3.10 percent of eligible wages in 2006 and 5.6 percent in 2005. The employees participating in this plan are required to contribute 8.0 percent of eligible wages. Contribution amounts are revised annually; the 2007 fiscal Authority contribution amount is 11.68 percent. The employee contribution has remained constant at 8.0 percent.

The total contribution requirement for both plans in the accompanying financial statements was $706,000 and $623,000 for the years ended September 30, 2006 and 2005, respectively.

NOTE G - DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan (the "457 Plan") created in accordance with IRS Code Section 457. The 457 Plan, which is available to all full-time employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held by trustees for the exclusive benefit of plan participants and beneficiaries. Thus the assets and liabilities relating to the 457 Plan are not reflected on the Authority's balance sheet. The market value of the 457 Plan's investments was $2,981,000 and $3,074,000 as of September 30, 2006 and 2005, respectively.

The Authority also makes matching contributions to a separate retirement plan created in accordance with IRS Code Section 401(a). The Authority contributes a specified amount for each dollar the employee defers to the 457 Plan. All 401(a) Plan assets are held by trustees for the exclusive benefit of plan participants and beneficiaries. The market value of the 401(a) Plan's investments was $631,000 and $508,000 as of September 30, 2006 and 2005, respectively. The Authority's 401(a) matching contributions were $116,000 and $106,000 for the years ended September 30, 2006 and 2005, respectively.

NOTE H - RISK MANAGEMENT

The Authority participates in the City's experience rated self-insurance plan which provides for auto liability, comprehensive general liability and workers' compensation coverage, up to $1,200,000 per occurrence for workers' compensation claims. The Authority has excess coverage for individual workers' compensation claims above $1,200,000. The Authority's expense is the premium charged by the City's self-insurance plan. Liabilities for claims incurred are the responsibility of, and are recorded in, the City's self-insurance plan. The premiums may be calculated on a retrospective or prospective basis depending on the claims experience of the Authority and other participants in the City's self-insurance programs. Workers Compensation and General Liability insurance premiums amounted to $242,000 and $245,000 for the years ended September 30, 2006 and 2005, respectively.

the Authority to receive the best available property insurance rates. Premium expense amounted to $305,000 and $175,000 for the years ended September 30, 2006 and 2005, respectively.

As a part of the Authority's risk management program, certain commercial insurance policies are purchased to cover designated exposures and potential loss situations.

NOTE I - LINE OF CREDIT

On August 30 2005, the Authority established a three-year, $25,000,000 Line of Credit Revenue Note with SunTrust Bank. On August 8, 2006 the credit line was subsequently increased to $50,000,000. The purpose of the Line of Credit is to provide short term funding associated with the Authority's capital development plan. Terms of the line of credit are detailed below; however, the Authority fully intends to replace these borrowings in 2007 with a bond Issue. Total draws on the line through September 30, 2006 were approximately $14,000,000. Upon completion of the three-year initial term, the Authority has a two-year Term-Out period available. Interest is due semi-annually, while principal is due at the end of the three-year initial term unless the Authority elects the two-year Term-Out period, in which case principal will be due semi-annually. The Authority's draws are eligible for three different variable interest rates; AMT, Qualified or Taxable. During the three-year initial term, the AMT rate is 77% of the LIBOR Rate plus 12.6 basis points, the Qualified rate is 66% of the LIBOR Rate plus 14.7 basis points and the Taxable rate is the LIBOR Rate plus 26.4 basis points. During the two-year Term-Out period, the AMT rate is 77% of the LIBOR Rate plus 37.3 basis points, the Qualified rate is 66% of the LIBOR Rate plus 35.7 basis points and the Taxable rate is the LIBOR Rate plus 59 basis points. During the fiscal year ended September 30, 2006, the Authority made Taxable draws of $12,034,000. Draws for the previous fiscal year were $1,983,000, for total draws to date of $14,017,000. These borrowings are recorded as current liabilities, as the Authority may choose to pay all outstanding balances at its discretion.

NOTE J - LONG-TERM DEBT, CAPITAL LEASES AND OTHER NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended September 30, 2006 and 2005 was as follows:

Long-term debt and capital leases at September 30, 2006 and 2005 consisted of the following:

In November 2000, the Authority issued $39,625,000 principal amount of Revenue Bonds, Series 2000. The proceeds of the bonds are being used for the acquisition, construction and installation of capital improvements to the Authority's facilities. The Authority had no unspent proceeds as of September 30, 2006 or 2005.

The Series 2000 and 1996 Bonds are collateralized by a lien upon and pledge of net revenues of the Authority's Facilities and certain monies held in trust funds. The Authority has agreed in its various bond related documents to establish and maintain rates charged to customers that will be sufficient to generate certain levels of oper-

operating income in excess of its annual debt service on the various outstanding bonds. The Series 2000 and 1996 Bonds also place restrictions on the Authority's issuance of debt on parity with bonds currently outstanding.

2006

(In thousands of dollars)	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable, notes payable and capital leases					
Revenue bonds	$ 21,415	$ -	$ (1,045)	$ 20,370	$ 1,095
Revenue refunding bonds	57,314	-	(1,379)	55,935	1,460
Capital leases	9,005	-	(944)	8,061	892
	87,734	-	(3,368)	84,366	3,447
Less original issue discounts and deferred loss on refunding	(4,017)	-	284	(3,733)	-
Total noncurrent liabilities	$ 83,717	$ -	$ (3,084)	$ 80,633	$ 3,447

2005

(in thousands of dollars)	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable, notes payable and capital leases					
General obligation debt		$ -		$ -	$ -
Revenue bonds	22,305	-	(890)	21,415	1,045
Revenue refunding bonds	58,615	-	(1,301)	57,314	1,380
Capital leases	9,810	-	(805)	9,005	840
	90,730	-	(2,996)	87,734	3,265
Less original issue discounts and deferred loss on refunding	(4,302)	-	285	(4,017)	-
Total noncurrent liabilities	$ 86,428	$ -	$ (2,711)	$83,717	$ 3,265

The Authority made a $16,020,000 partial defeasance of its Revenue Bonds, Series 2000 in January 2003. The Authority incurred a loss on defeasance (difference between (i) the principal defeased and (ii) the cost of the defeasance escrow and related costs) of $1,966,279. The Authority, through the defeasance, reduced its aggregate debt service payments by $32,304,000 over the next 27 years and will obtain an economic gain (difference between the present value of (i) the debt service of the defeased bonds at the escrow yield of 3.652 percent and (ii) the cost of the defeasance escrow) of $2,062,097.

(in thousands of dollars)	2006	2005
Revenue Bonds, Series 2000, including serial bonds due in varying amounts through 2030. Interest rates range from 4.50% to 5.7%.	$ 20,370	$ 21,415
Revenue Refunding Bonds, Series 1996, including serial bonds due in varying amounts through 2019, subject to annual sinking fund redemption. Interest rates range from 5.50% to 5.75%.	55,935	57,314
Subordinated Equipment Lease-Purchase Agreement, Series1999-A, with semi-annual principal and interest payments through 2014, with interest at an annual rate of 3.88%.	8,061	9,005
	84,366	87,734
Less current portion	3,447	3,265
	$ 80,919	$ 84,469

1. Debt maturities

Required debt service for the outstanding revenue bonds for the next five years and

The above maturities schedule has been updated to reflect the Revenue Refunding Bonds, Series 2006, issued on November 1, 2006. Related 2006 Bond issuance costs of $430,000, however, are not included in the above amounts (see Note P - subsequent events).

The following is a schedule of future minimum lease payments under capital leases as of September 30, 2006:

2. Partial defeasance of revenue bonds

The Authority has partially defeased its 2000 series revenue bond issue by placing funds in an irrevocable trust restricted for payment of all principal and interest related to the portion of revenue bonds defeased. This transaction has been treated as an in-substance defeasement and, accordingly, has been accounted for as though the debt has been extinguished. The debt that has been defeased and the related balances at September 30, 2006 and 2005 were as follows:

Other Noncurrent Liabilities

The Authority's accrued leave plan obligation is allocated to current (less than 12 months) and noncurrent liability classification. The amounts allocated to noncurrent liabilities are $722,000 and $733,000, for 2006 and 2005, respectively. Total accrued leave plan obligations are $1,052,000 and $977,000 for 2006 and 2005, respectively.

(In thousands of dollars)	Interest	Principal
Years ending		
2007	$ 3,969	$ 2,555
2008	3,739	2,755
2009	3,591	2,905
2010	3,402	3,960
2011	3,177	4,180
Thereafter	22,156	59,950
	$ 40,034	$ 76,305

The Authority also carries a $200,000 insurance reserve for estimated claims outstanding as part of the overall city managed workers compensation and general liability insurance program.

(In thousands of dollars)	
Years ending	
2007	$ 1,197
2008	1,196
2009	1,196
2010	1,196
2011	1,196
Thereafter	3,454
Total minimum lease payments	9,435
Less: Amount representing interest	1,374
Present value of minimum lease payments	$ 8,061

NOTE K - SWAP

1. Objective of the swap.

In June 2003, the Authority affected a synthetic forward refunding of the outstanding Series 1996 Port Facilities Revenue Refunding Bonds (the "1996 Bonds") to lock in savings based on current market conditions. Under U.S. tax law, the 1996 Bonds were not eligible for a traditional current refunding until November 1, 2006. This was done by the Authority entering into a swaption contract that provides the

(In thousands of dollars)	2006 Principal Balance	2006 Investment Balance With Escrow Agent	2005 Principal Balance	2005 Investment Balance With EscrowAgent
Revenue Bonds, Series 2000	$ 14,205	$ 15,152	$ 14,935	$ 16,113

as of November 1, 2006, without issuing refunding bonds in 2003.

2.Terms

The swaption was entered into in June 2003. The swaption gave the counterparty, UBS AG, the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap. UBS AG, had the option to exercise the agreement on November 1, 2006 - the first call date of the Authority's 1996 Bonds. UBS exercised this option, and, as a result, the Authority issued $54,905,000 in Revenue Refunding Bonds, Series 2006, Auction Rates Certificates on November 1, 2006 which redeemed the outstanding 1996 Bonds.
The semi-annual payments are based on an initial notional amount of $54,905,000, amortizing thereafter. The fixed swap rate (5.215 percent) is a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swap's variable payment would be 67 percent of the London Interbank Offered Rate (LIBOR).

3.Fair value

As of September 30, 2006 and 2005, the underlying swap had a negative fair value estimating the zero-coupon method of $3,216,287 and $2,321,967, respectively. This method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

4.Basis risk

With the option exercised and the auction rates certificates bonds issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the certificates versus the variable payment on the swap (67 percent of LIBOR).

NOTE L - OPERATING GRANTS

In 2006, the Authority recorded $359,000 in operating grants. This amount was for the final Federal Emergency Management Agency (FEMA) grants funds carryover from the 2004 hurricane season. All 2006 FEMA grant funds were dredging related.

In 2005, the Authority recorded $1,874,000 of operating grants. The largest portion of which were FEMA grants totaling $1,516,000. These grants all pertain to the 2004 hurricane season (Charley and Frances), and include $1,349,000 of dredging-related funding. The remaining operating grants recorded in 2005 were related to Security Operations.

NOTE M - COMMITMENTS AND CONTINGENCIES

At September 30, 2006 and 2005, the Authority had commitments for purchases of equipment and future construction work of approximately $3,415,000 and $2,238,000, respectively.

The Authority owns over 175 acres of property at the Talleyrand Marine Terminal, property which historically has had varying types of industrial activity. Environmental testing of both terminal and adjoining properties is conducted periodically. At present, the Authority has no known exposure or specific findings which would indicate potential liability.

represent about 46% of the total. At September 30, 2006, the union contract reached the end of its three-year term. While contract renewal negotiations are underway, the prior contract has continued on a month to month basis. Indications at this point are that the union contract will be renewed for another three-year term in early 2007.

NOTE N - CAPITAL CONTRIBUTIONS

1. City of Jacksonville Excise Tax Revenue Bonds

In February 1993, the City issued $43,605,000 of Excise Tax Revenue Bonds, Series 1993 ("1993 Bonds"), of which $38,880,000 of the total proceeds were loaned to the Authority for marine port expansion. In October 1996, the City issued $57,150,000 of Excise Tax Revenue Bonds, Series 1996B ("1996 Bonds"), of which $56,035,000 of the proceeds were contributed to the Authority for marine port expansion. In April 2001, the City issued $42,485,000 of Excise Tax Revenue Refunding Bonds, Series 2001A ("2001 Bonds"), which refunded the 1996 Bonds. In April 2003, the City issued $34,540,000 of Excise Tax Revenue Refunding Bonds, Series 2003C ("2003 Bonds"), which refunded a portion of the 1993 Bonds. The City is responsible to the Bond Holders for payment of the debt service on the excise tax bonds.

The City has allocated to the Authority an amount equal to 50 percent of the increase in the City's telecommunication tax revenues over the base year and 25 percent of an additional mill of revenue the City receives from the JEA (the "Authority Allocation").

The Authority is not required to pay the City any amount for debt service on the 1993, 2001 or 2003 Bonds. The City retains the Authority's allocation and the $800,000 annual appropriation to the Authority, which is used by the City for debt service on the 1993, 2001 and 2003 Bonds. Not later than December 15th of each year, the Authority receives from the City excess funds from the telecommunications tax, as agreed upon by all parties, for the Authority's unrestricted use. These excess funds are accounted for as non-operating revenue.

2. Florida Ports Financing Commission Revenue Bonds, Series 1999

On October 14, 1999 the Florida Ports Financing Commission (the "Commission") issued $153,115,000 in Revenue Bonds, Series 1999 (the "Series 1999 Bonds"). The Series 1999 Bonds were issued to provide funds to finance the costs of acquiring and constructing capital projects undertaken by 9 ports located in the State of Florida, including the Jacksonville Port Authority. The amount allocated to the Jacksonville Port Authority was $31,966,000, which is available for approved expenditures. Including earned interest, the maximum amount approved for funding is $35,057,000.

The Authority has not recorded a liability for the Series 1999 Bonds since it does not have any obligation except for monies due from the State Transportation Trust Fund. As discussed above, all of such monies have been assigned to the Trustee to pay the debt. The Authority has no other obligation for payment of the debt. As expenditures are incurred for the approved projects, the Authority records a receivable from the Commission for 50 percent of qualifying amounts (75 percent of certain qualifying amounts) and records the amount to be reimbursed as a capital contribution. As of September 30, 2006, the Authority had drawn approximately $35,057,000 of eligible expenditures. The Authority currently maintains a nominal active account balance in the event funds are reallocated.

3. Federal contributions

In 2006, The Authority received $2,656,000 of funding from the Office of Domestic Preparedness (ODP). These amounts are in addition to funding received prior to 2006, $1,773,000 from ODP, and $4,727,000 from the Transportation Safety Administration. All of the above mentioned funding is designated for constructing capital assets in order to comply with the State of Florida Seaport Security compliance requirements. Additionally, prior to 2006, the Authority received $268,000 from US HUD for property development. Total available Federal Grants received through September 30, 2006, as itemized above, are $9,424,000.

Approximately $512,000 and $2,053,000 were recognized as contributions in the Statements of Revenue, Expenses and Changes in Net Assets for the years ended September 30, 2006 and 2005, respectively. As of September 30, 2006, the Authority had drawn approximately $2,609,000 of eligible expenditures. The Authority has an available balance of $6,815,000 as of September 30, 2006.

4. Other capital contributions

The Authority has received additional capital funding in from other State grants. Approximately $25,000 and $0 were recognized as contributions in the Statements of Revenue, Expenses and Changes in Net Assets for the years ended September 30, 2006 and 2005, respectively. As of September 30, 2006, the Authority had drawn approximately $0 of eligible expenditures. The Authority has an available balance of $13,450,000 as of September 30, 2006, which it anticipates expending in 2007.

NOTE O - ASSET IMPAIRMENT LOSS

In accordance with the Governmental Accounting Standards Board (GASB) pronouncements, Capital Assets which have a significant unexpected decline in the service utility of the capital asset must be identified as impaired, and an appropriate adjustment (write-down) must be recognized (Per GASB Statement No. 42 - Effective for fiscal periods beginning after December 14, 2004). The Authority has identified two cranes which require write-downs as impaired assets: a 1973 Alliance crane and a 1980 model Paceco crane. Neither of which has been in use since 2002, and it is also unlikely that these two cranes will be redeployed.

The current book value of the Alliance crane is $1.1 million and the Paceco crane is $4.2 million. The residual or scrap value of either of these is nominal. As a result, the Authority recognized an Asset Impairment Loss of $5.3 million in fiscal year 2006. This loss is recorded as a Non-Operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE P - SUBSEQUENT EVENTS

1. MOL Project In Progress

The Authority has a 30-year lease agreement with Mitsui O.S.K. Lines, Ltd. (MOL), to build a 158 acre container terminal facility at the Dames Point location. Project construction began in early fiscal year 2006, and anticipated completion is fiscal year 2008. The new terminal will initially process 200,000 containers annually, increasing to 500,000 containers in subsequent years. Final project costs will be determined in early 2007 and are estimated to be in excess of $100 million. Funding sources include City Revenue bonds financed by the Authority's Telecommunication Tax funds, Infrastructure Bank Loans, Special Purpose Facilities Bonds, and other internal funding sources. MOL will provide reimbursement in the form of rent payments to the Authority. Debt payment schedules, as well as corresponding MOL rent payment schedules have not been finalized as of the date of this financial report. Project capital spending to date through September 30, 2006 was $14.4 million. Amounts received to date from MOL at September 30, 2006 were $5.5 million.

2. APM Terminals executes 25-year lease with the Authority

In October 2006, the Authority reached an agreement on a new 25-year lease agreement with APM Terminals North America. The new deal runs through 2031, with an additional five-year option. In 2006, APM handled 1.4 million tons of cargo, the most of any single tenant, and generated more than $3.5 million in revenue for the port.

3. Revenue Refunding Bonds, Series 2006

The Authority issued $54,905,000 in Revenue Refunding Bonds, Series 2006 Auction Rates Certificates on November 1, 2006. The proceeds of the bonds were used for the purpose of refunding the Authority's outstanding Port Facilities Revenue Refunding Bonds, Series 1996. The bonds are variable rate with the initial rate of 3.5%. The refunding resulted in a net present value savings of $3,358,938 or 6.17%. Interest on the bonds are payable on November 1 and May 1 with principal payments due each November 1.

4. Eminent Domain Proceedings

The Authority has initiated eminent domain procedures in order to obtain approximately 100 acres north of the Talleyrand terminal, a location viable for expansion for specific purposes given the proximity to existing terminal, railway, and highway infrastructure. The Authority, as of the date of this report, is acquiring a parcel of this property (approximately 27 acres for the sum of $3.8 million). The acquisition of the remaining acreage is proceeding through the legal process. While the court may determine appropriate value for the remaining acreage (April 2007 timeframe), the Authority is not required to purchase any of the additional property as part of these proceedings.

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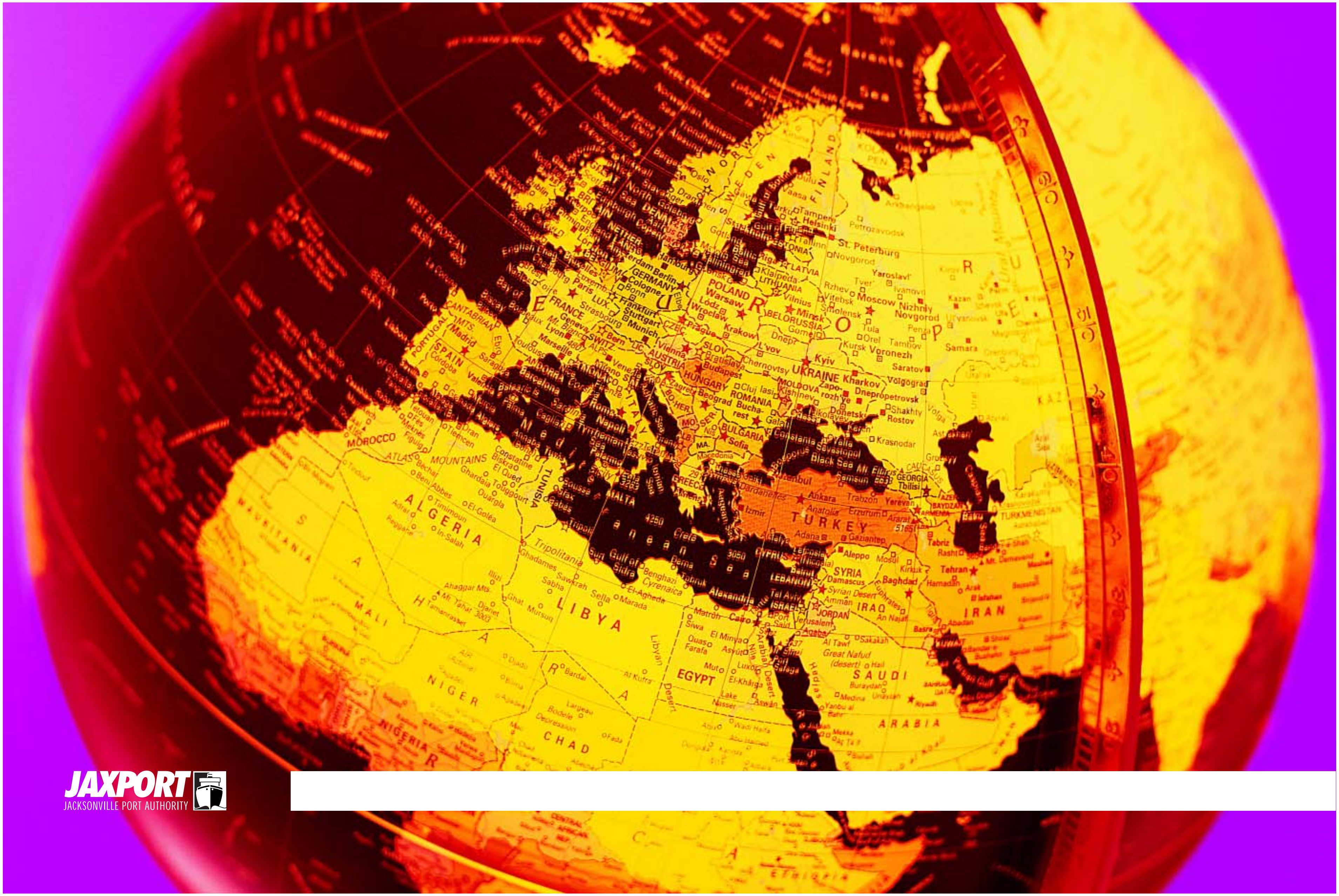
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