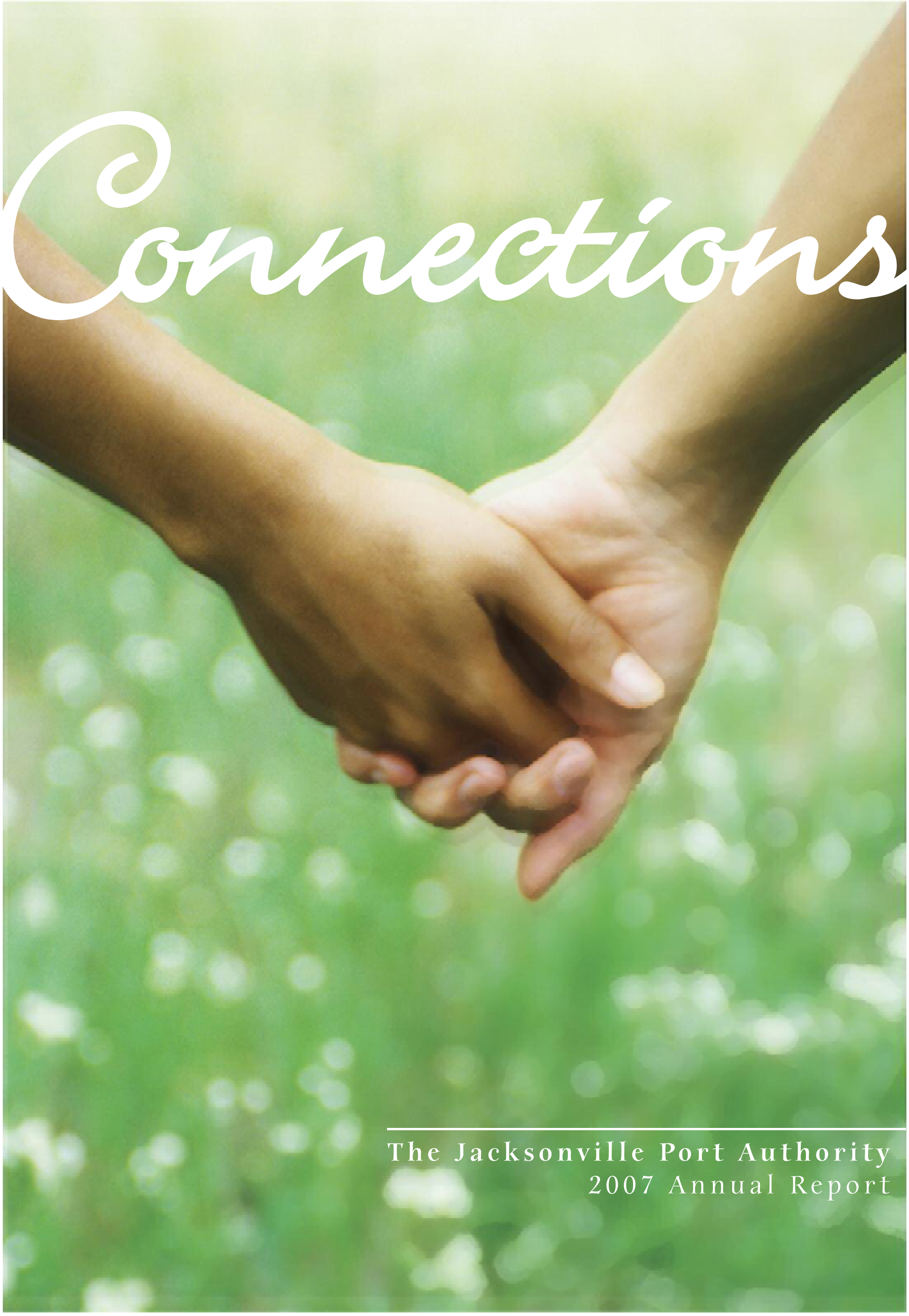


Connections

The Jacksonville Port Authority
2007 Annual Report

ABOUT THIS REPORT

The size and scope of this report reflect an effort to minimize its impact on the environment.

This report is printed on paper containing FSC certified materials which meet the Forest Stewardship Council's standards for responsible forest management, and post consumer recycled fiber manufactured without the use of chlorine chemistry. In addition this paper carries a Green Seal certification which ensures that the mill processes used, including packaging, are environmentally friendly.

The ink used for this report is vegetable-based.

ABOUT JAXPORT

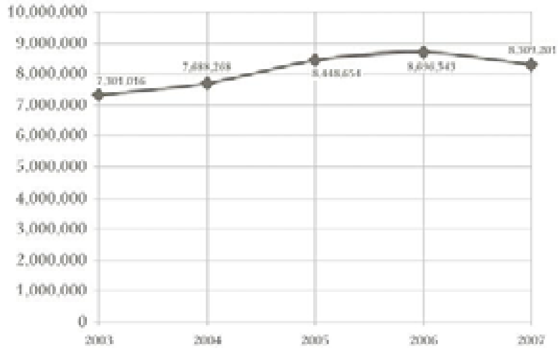
The Jacksonville Port Authority (JAXPORT) is an independent agency responsible for the development of public seaport facilities in Jacksonville, Florida. JAXPORT owns three cargo facilities, one passenger cruise terminal and an auto ferry service along the St. Johns River: the Blount Island Marine Terminal, the Talleyrand Marine Terminal, the Dames Point Marine Terminal, the JAXPORT Cruise Terminal and the St. Johns River Ferry.

OUR VISION

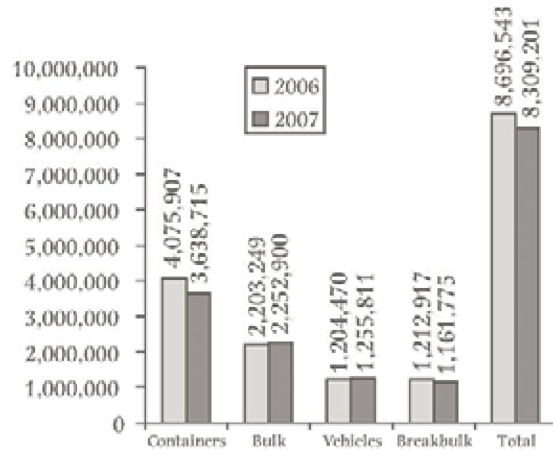
The vision of the Jacksonville Port Authority is to be a major economic engine in Northeast Florida by continuing to be a premier diversified port in the Southeastern United States, with connections to all major trade lanes throughout the world.

OUR MISSION

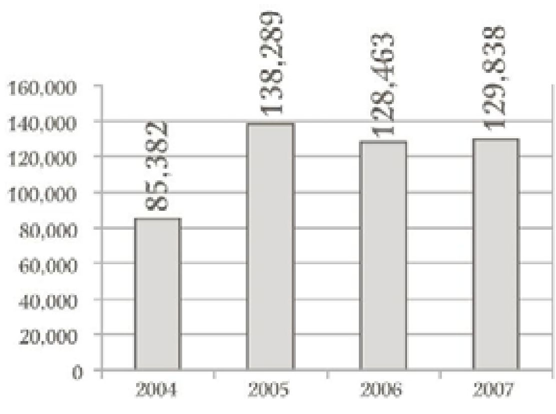
The mission of the Jacksonville Port Authority is to contribute to the economic growth and vitality of Northeast Florida by fostering and stimulating commerce through the Port of Jacksonville. The mission will be accomplished through the effective and fiscally-responsible planning, development, management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



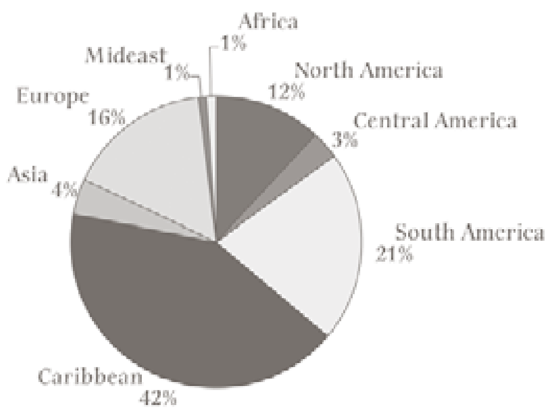
Cargo Tonnage
(in metric tons)



Tonnage
(in metric tons)



Embarking Cruise Passengers
(*Inaugural year of cruise service*)



Trading Partners

CONNECTIONS: Cargo, Cruise, Community

As this annual report reflects, JAXPORT is busy creating connections: establishing new routes for sea-going commerce; continuing to fulfill our important role in the cargo supply chain; exceeding customer expectations with our award-winning cruise embarkation service; and staying true to our main mission of providing jobs and opportunity for the Northeast Florida community.

Chief among these connections is JAXPORT's extraordinary access to three interstate highways and three major railroads leading to and from the U.S. heartland and beyond. Cargo imported through JAXPORT is now distributed to every U.S. state except Hawaii. With the expansion of the Panama Canal underway, JAXPORT stands to see unprecedented growth in the next decade thanks to our unique geographic location. We are getting ready to seize this opportunity now.

JAXPORT's newest connection with Asia and Europe, the TraPac Container Terminal at Dames Point, moves closer to completion every day. Construction of the $220 million dedicated terminal for Mitsui O.S.K. Lines, Ltd. (MOL) is well underway and TraPac is set to begin operations at the end of 2008. MOL's commitment to JAXPORT has spurred other Asian carriers to take a closer look at Jacksonville's strategic possibilities for their cargo. Again, opportunity is knocking and JAXPORT is making the connections.

In JAXPORT's fourth year of offering cruise service, passengers came from every U.S. state and beyond (Canada and the U.K.) to enjoy a trip aboard the *Carnival Celebration*. JAXPORT's Cruise Terminal award-winning embarkation team continues to connect with customers and with Carnival Cruise Lines itself: the cruise giant recently announced plans to homeport a newer, larger vessel here in the fall of 2008.

In addition, we remain connected to the beautiful St. Johns River, without which our efforts to be a true economic powerhouse for the region would surely flounder. JAXPORT is committed to balancing the needs of seagoing commerce with the environmental stewardship of this glorious natural resource.

In FY 2007, JAXPORT earned nearly $40 million in operating revenues, the seventh consecutive year of record revenues. At the same time, JAXPORT's operating expenses decreased and operating income grew, all further illustrating the financial health of the JAXPORT organization. Wall Street has shown its recognition of this strength, with two of the nation's premier rating services recently reaffirming strong financial grades for JAXPORT.

As you will see in the pages of this report, JAXPORT's connections to cargo, cruise, community and global commerce will long continue to reap benefits for our stakeholders and for the people who live and work in Northeast Florida.

Tony D. Nelson
2007 Chairman of the Board

Frederick R. Ferrin
Executive Director

Financial Health

JAXPORT earned $39.9 million in operating revenues in FY 2007, a four percent increase over FY 2006 ($38.5 million) and the port's seventh consecutive year of record revenues. Operating expenses decreased to $25 million, down from $28 million the previous year. Operating income grew to $14.5 million, up 38 percent from $10.5 million in FY 2006.

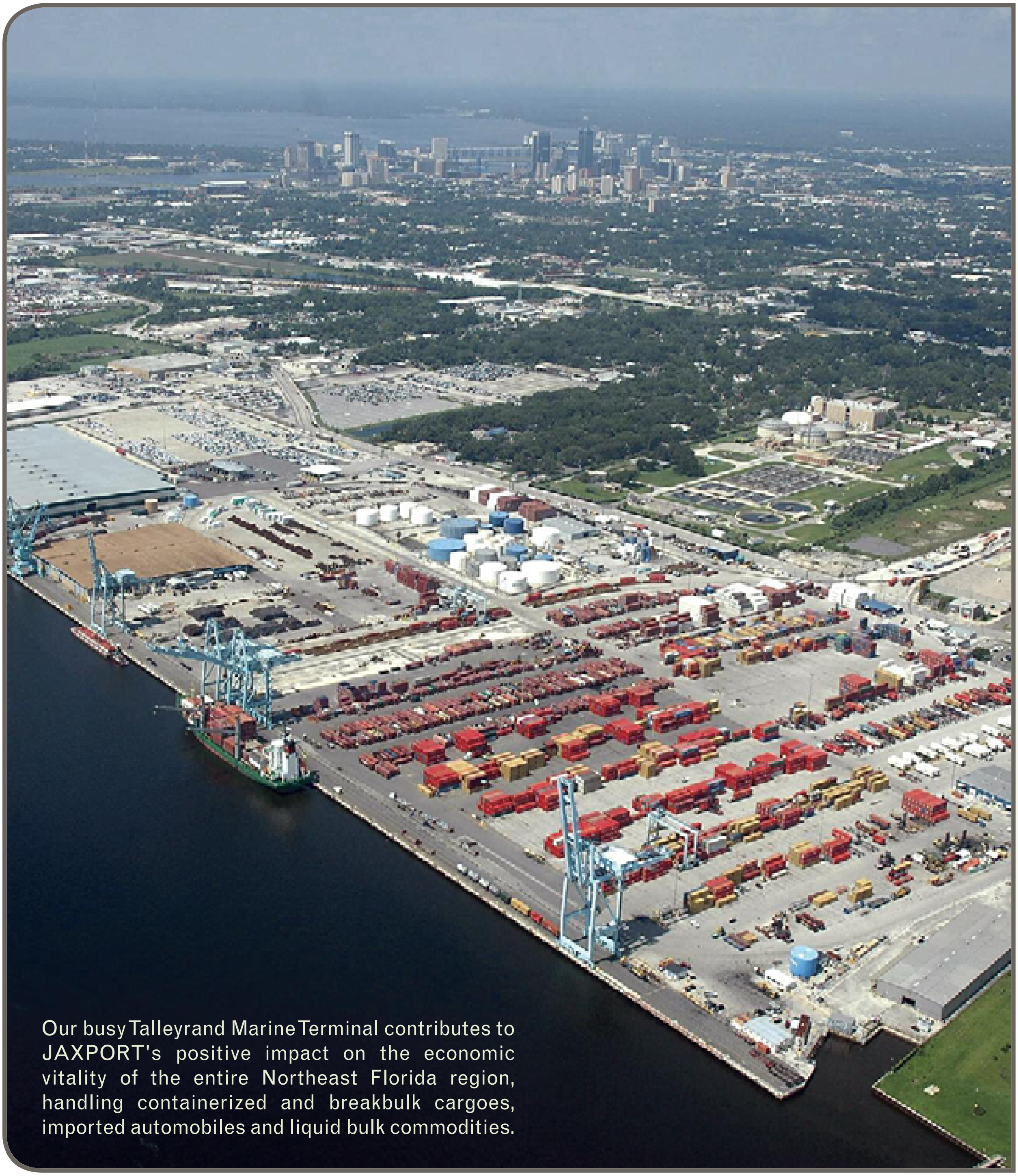
These financial results reflect JAXPORT's solid year operationally. Total cargo shipped through JAXPORT facilities decreased slightly to 8,309,201 tons in FY 2007, a four percent decrease from last year's record 8,696,543 tons. A total of 129,838 passengers embarked on cruise ships departing the JAXPORT Cruise Terminal, up slightly from the 128,463 embarkations in 2006.

In 2007, Moody's Investors Service 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 O.S.K. Lines, Ltd. and the company's terminal operating arm, TraPac.

In addition, JAXPORT has budgeted approximately $172 million for other capital projects in FY 2008 to include the potential acquisition of property for further terminal development.

Fort Caroline Elementary School students took home small plants to nurture following a JAXPORT sponsored tree planting ceremony to beautify the school grounds. The children came away understanding the role of trees and plants in a healthy environment.



Our busy Talleyrand Marine Terminal contributes to JAXPORT's positive impact on the economic vitality of the entire Northeast Florida region, handling containerized and breakbulk cargoes, imported automobiles and liquid bulk commodities.

Connecting with the Economy

There is no denying that JAXPORT is a crucial component of the area's present economic vitality and future growth. According to figures compiled by the Pennsylvania-based consulting firm Martin Associates, Jacksonville's seaport generates the following impact for Northeast Florida:

- Nearly 50,000 direct and indirect area jobs, 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.

- Almost $3 billion in economic impact annually for Northeast Florida. 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 at the JAXPORT Cruise Terminal include those 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.

In addition, the construction of the TraPac Container Terminal at Dames Point has spurred demand for commercial real estate and warehouse space. Citing Jacksonville's outstanding intermodal connections and worldwide ocean carrier services, several companies are building and opening new warehousing and distribution center facilities in Jacksonville.

Cargo Highlights

In FY 2007, JAXPORT facilities handled 8,309,201 tons of cargo, a four percent decrease from the FY 2006 8,696,543 tons. This small decrease comes after three straight years of record cargo tonnage and six consecutive years of cargo growth. JAXPORT remains the nation's second busiest vehicle handling port and 12th busiest container port.

JAXPORT experienced gains in two of its four cargo types in 2007: the shipment of vehicles and other Ro/Ro cargoes – primarily passenger cars, trucks and heavy equipment – grew by 4 percent, with 614,647 units moving through JAXPORT. Bulk cargoes – including crushed limestone and other aggregates – grew to 2.3 million tons, reflecting a two percent increase. Breakbulk cargoes – which include lumber, paper, steel, poultry and other non-containerized commodities – fell four percent to 1.2 million tons. Meanwhile, containerized cargoes – primarily consumer goods – fell 11 percent to 3.6 million tons, or 710,073 container units (measured in 20-foot equivalent units, TEUs) largely due to the political situation in Puerto Rico.

JAXPORT also made several significant business announcements in 2007. APM Terminals North America, Inc., SSA Cooper, and Höegh Autoliners Inc. all signed new multi-year contracts with JAXPORT, while Wallenius Wilhelmsen Lines Americas, LLC (WWL) and Crowley Liner Services, Inc. extended their existing contracts. Other port customers added new trade lanes to their service offerings via Jacksonville: Trailer Bridge to/from the Dominican Republic and Seafreight Lines to/from the Cayman Islands. In addition, Abou Merhi Lines began a new vehicle service to South Africa. Other developments signaling the growth of JAXPORT's cargo business: JAXPORT's Foreign Trade Zone (FTZ #64) was expanded to include two additional site locations and several major retailers opened new, or announced expansion of, existing distribution facilities in Jacksonville during 2007.

A container crew working under the direction of SSA Cooper at a Hamburg Süd-managed terminal set a JAXPORT record in 2007, accomplishing an average of 47.19 container moves per hour. I.L.A. member Homer Wright, Jr. (right) was operating the crane, but called the record-setting operation a team effort. Quality labor is just one of the reasons JAXPORT is an easy choice for shippers.

The *Carnival Fascination* will soon call JAXPORT's Cruise Terminal home, departing on four- and five-day cruises from Jacksonville starting in September 2008. Carnival's commitment of this newer, larger ship to JAXPORT underscores the success of our cruise business and the award-winning efforts of our embarkation team.

Cruise Highlights

In FY 2007, JAXPORT's fourth year in the cruise business, a total of 129,838 passengers cruised on 78 voyages aboard Carnival Cruise Line's *Carnival Celebration*. The 1,478-passenger *Carnival Celebration*, the only cruise ship presently providing year-round service to and from Jacksonville, offers four- and five-day cruises to Key West and the Bahamas departing from JAXPORT's temporary cruise terminal.

A big change in JAXPORT's cruise offering was announced in 2007. In April 2008, the *Carnival Celebration* will be retired and replaced in the fall with the newer, larger *Carnival Fascination*. The *Carnival Fascination* can carry 2,052 passengers, a 38 percent increase in capacity over the *Carnival Celebration*. In addition, the *Carnival Fascination* has recently undergone a multi-million dollar renovation and passengers will enjoy updated amenities and remodeled interiors. The arrival of the *Carnival Fascination* marks yet another sign of the commitment Carnival has made to JAXPORT as a homeport.

Passengers continue to enjoy their cruise experience at JAXPORT with a total of 95 percent of those surveyed last year saying they would consider choosing Jacksonville again for their next cruise departure. In 2007, Carnival awarded JAXPORT's Cruise Terminal Embarkation Team highest honors in its Quality Assurance Inspection Program. The same team has twice earned top honors in the company's annual guest comment card survey.

Connecting with the Community

One of the most important and lasting connections JAXPORT makes is with the people of Northeast Florida. Beyond being a good corporate citizen of the area, our mission to create employment and economic activity for the region means we are also deeply involved in educating the transportation and logistics leaders of tomorrow, taking care of those in need in our community, supporting environmental stewardship, and ensuring port-related opportunities are available to all.

Below is just a sampling of the programs JAXPORT sponsored or participated in during 2007.

Environment

- Greenscape of Jacksonville's Great Tree Giveaway
- Jacksonville Community Council Inc.'s "Environment, Energy and the Economy" study
- St. Johns Riverkeeper's "River Friendly Yards" brochure

Jobs

- The jaxportjobs.com website serves 38,000+ registered users and 140 companies
- "Careers in Transportation, Logistics and Manufacturing Career Fair 2007"

Education

- Duval County Public Schools "Career Academies"
- Mentoring program at R.L. Brown Elementary School
- JAXPORT/South Atlantic Caribbean Ports Association Annual College Scholarship
- SAFE HARBOR Boys Home

Small Business

- The International Trade Certificate Program-Export Series
- Business Opportunities Workshop/2007 Florida Black Expo
- Minority Enterprise Development Week and the 2007 Youth Entrepreneur Summit

Community

- JAXPORT's 150 employees contributed nearly $62,000 to the United Way of Northeast Florida and the Community Health Charities 2007 Campaign
- Volunteer Jacksonville's "Visit from St. Nick" providing books and toys to 650 children
- Big Brothers, Big Sisters & other Christmas parties for children

World of Nations

John E. Ford Elementary Earth Day

Greenscape's Great Tree Giveaway


Art students tour for "A New View" mural project

Workers at the TraPac Container Terminal at Dames Point construction site drive the first piling in the ships' berth area. The largest capital project in JAXPORT's history is set to be completed in December 2008, bringing with it almost a billion dollars in economic activity.

Connecting with the Future

2008 will be a historic year for JAXPORT with the planned opening of MOL's TraPac Container Terminal at Dames Point, the Port's largest capital project to date. Still, JAXPORT's Board of Directors and staff are already looking to, and planning for, further development in the future:

CONTRACT TALKS WITH HANJIN SHIPPING

In October 2007, JAXPORT signed a Memorandum of Understanding with officials of Korea's Hanjin Shipping Co., LTD to develop a 170-acre, $360 million dollar container facility near the Dames Point and Blount Island Marine Terminals. When fully operational, the proposed Hanjin terminal will be able to handle 1 million container units (measured in 20-foot equivalent units). Hanjin and the new TraPac terminal together will triple JAXPORT's current container throughput, making JAXPORT a top-ten U.S. container port.

STREAMLINE THE ST. JOHNS RIVER FERRY OPERATION

JAXPORT took over operations of Florida's last surviving public auto ferry from the City of Jacksonville Oct. 1, 2007. The ferry connects Mayport Village to Fort George Island. JAXPORT has already been able to reduce expenses in the areas of fuel purchasing and maintenance. Additionally, Congress recently allocated $490,000 for ferry replacement or renovation. In 2008, JAXPORT will seek ways to further streamline the operation and continue to provide the popular and time-saving ferry service to residents and visitors.

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. With partial funding in place, the project should begin in 2008. When completed, Jacksonville's entire 21-mile shipping channel will be at a 40-foot depth. JAXPORT is beginning work with the federal government to examine the potential for additional deepening, a crucial component in the plan to attract future seaport business to Jacksonville.

CONTINUE TO ENHANCE PORT SECURITY

In FY 2008, JAXPORT will open its new $2.5 million Security Operations center near the Dames Point and Blount Island Marine Terminals. The facility will consolidate the command, control and communications of JAXPORT's dedicated security force and will centralize JAXPORT's cooperative efforts with federal, state and local law enforcement. In addition, JAXPORT will begin implementing the Federal Transportation Worker Identification Credential, which requires all regular port users to be registered with the Department of Homeland Security.


JAXPORT
JACKSONVILLE PORT AUTHORITY
JAXPORT.CO
MOU Signing Cerem
ADVANTAGE
JAXPORT
JACKSONVILLE PORT AUTHORITY
SPIDER-MAN
CROWL
OWLEY

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, 2007 and 2006, 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. 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, 2007 and 2006, 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.

In accordance with Government Auditing Standards, we have also issued a separate report dated December 18, 2007 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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. We have also issued a separate report on our consideration of the Authority's compliance with requirements applicable to each major program and state financial assistance project and on internal control over compliance in accordance with the U.S. Office of Management and Budget Circular A-133 and Chapter 10.550, Rules of the Florida Attorney General. These reports are an integral part of an audit performed in accordance with Government Auditing Standards, U.S. Office of Management and Budget Circular A-133, and Chapter 10.550, Rules of the Florida Attorney General and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 20 through 27 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

December 18, 2007
Melbourne, Florida

Berman Hopkins Wright & LaHam

CPAs and Associates, 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, 2007. 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

Prior to FY 2002, the Authority and the Jacksonville Airport Authority were a combined legal entity. Since FY 2002, the Authority has operated as a separate legal operating entity and has diversified its cargo base to include: containers; liquid bulk; dry bulk; breakbulk; cruise; and vehicles. In this time period (from FY 2001 to FY 2007), the Authority has seen the following activity/ accomplishments –

- Cargo tonnage has increased from 6.9 million tons to 8.3 million tons
- Operating revenue has increased from $27.1 million to $39.9 million
- Operates as the: #2 U.S. port for vehicle handling; #1 U.S. port for Puerto Rico trade (by tonnage and value); #12 U.S. port for container handling
- Began operating a homeport cruise terminal for Carnival Cruise Lines
- Executed leases with tenants who ship dry bulk aggregates, frozen food, and paper
- Executed a 30 year lease with Mitsui OSK Lines, Ltd (MOL) to import Asian containerized cargo and construct a 158 acre terminal
- In FY 2007, the Authority broke ground on the new MOL terminal and is approximately 30% complete with a scheduled opening in late 2008 or early 2009. When complete, this new terminal should, in time, allow the Authority to double its existing container throughput.

Additionally, to further expand its east-west shipping patterns, the Authority has executed a Memorandum of Understanding with the South Korean shipping line, Hanjin Shipping Co. LTD, for the development of a new terminal to be operational in 2011. At this time, the 30 year contract needs to be negotiated and executed by both parties. This contract, when added with the MOL terminal, could potentially triple the Authority's current container throughput. Finally, in 2007, Moody's Investors Services and Fitch affirmed the rating of "A2" and "A" respectively noting 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>2007 vs. 2006</u>

The Authority's operating revenue for 2007 was $39,905, an increase of $1,413, or 3.7% over prior year revenues of $38,492. Most notable increases were in Autos and Containers. Break Bulk revenues declined as did Military and other miscellaneous revenues to a lesser degree. Fiscal Year 2007 Operating Expenses, less depreciation and amortization, were $25,397, down $2,601 from prior year, most notable was a reduction in dredging expense of $3,984 ($773 in FY07 vs $4,757 in FY06), partly offset by increased salaries and benefits of $1,054, reflecting increased headcount, salary increases and increased fringe benefits cost (pension and health). Repairs and Maintenance were up $576, or 34.1%, which includes increased regulatory required inspection costs of $313 and equipment maintenance of $269. Bad Debt expense reflected a favorable credit of ($95), a result of good collections history and no significant past due accounts at year end. As a result of the above factors, operating income before depreciation and amortization was $14,508, an increase of $4,014 (38.3%) over prior year. Net non-operating revenue/(expense) in 2007 was ($546), as compared to 2006 of ($5,462). The major change being a 2006 asset impairment charge of ($5,287). 2006 also included FEMA grants of $359. Positive for 2007, was additional interest income of $200 (FY07 $888 vs FY06 $688).

Capital contributions in 2007 were $4,587, up $4,049 over 2006, reflecting increased grant funding for construction projects. At close of fiscal year 2007, the Authority had net assets (total assets less total liabilities) of $287,543, an increase of $3,019 compared to prior year net assets of $284,524.

2006 vs. 2005

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 amortization increased $1,289 in 2006, impacted by numerous capital projects, most notable being the Blount Island tenant relocation (an approximate $16 million project completed in late 2005). Net non-operating revenue in 2006 reflected a net 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 of $284,524, a decrease of $10,271 compared to prior year net assets of $294,795.

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 revenues and expenses in this statement are reported for items that will result in cash flows in future 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

<u>Net Assets</u>
Net assets are a key indicator of an entity's financial position. At September 30, 2007, the Authority's net assets were $287,543, an increase of $3,019 from the prior year net assets of $284,524. The majority of this increase of $3,019 was attributable to FY 2007 operating income before depreciation and amortization of $14,508, and FY 2007 capital contributions of $4,587. FY 2007 Depreciation and Amortization of $15,530 reduces the net asset position, but overall the combined factors above result in $3,019 positive increase to net asset balance.

The Mitsui O.S.K. Lines, Ltd. (MOL) project to date (thru 9-30-07), has essentially a neutral impact on "total net assets". The MOL project is funded by rent payments and contributions from MOL, which are in turn used to construct the terminal facility. Itemized MOL impacts to the balance sheet and "Net Assets" at year end FY 2007 are several, including: construction cash balances of $65,239, increased FY 2007 MOL related capital spending of $58,574, increased current liabilities including both construction contracts payable of $13,216 and current debt obligations of $4,900. Other noncurrent liabilities include contribution funding from MOL of $96,808, and net increased other borrowings of $5,476. Revenue bonds outstanding (net of current portion) also increased $6,549 in FY 2007 related to MOL project funding.

In terms of three-year trends, total assets and liabilities were relatively constant in 2005 and 2006, with the exception of other non current liabilities which were impacted by Line of Credit borrowings (used predominately for initial MOL construction spending). Fiscal Year 2007 changes are primarily driven by the MOL project as itemized in the previous paragraph.

The Authority is engaged in a capital-intensive industry and, as such, its largest portion of net assets is invested in capital assets. The next largest portion of the Authority's net assets is unrestricted assets, future debt service payments, and other, respectively.

(In thousands of dollars)	2007	2006	2005
NET ASSETS			
Current assets	$ 92,861	$ 23,458	$ 27,201
Noncurrent assets (excluding capital assets)	8,223	9,540	11,619
Capital assets	422,532	358,413	355,194
Total assets	523,616	391,411	394,014
Current liabilities	35,041	14,762	17,834
Revenue bonds outstanding (net of current portion)	73,529	70,017	72,287
Other noncurrent liabilities	127,503	22,108	9,098
Total liabilities	236,073	106,887	99,219
Net assets			
Invested in capital assets, net of related	259,987	260,537	269,974
Restricted for capital projects	-	-	-
Restricted for debt service	12,260	7,491	7,213
Restricted - other	378	329	212
Unrestricted	14,918	16,167	17,396
Total net assets	$ 287,543	$ 284,524	$ 294,795

Revenue, Expenses and Changes in Net Assets - 2007 vs. 2006

The Authority's operating revenue for 2007 was $39,905, an increase of $1,413, or 3.7% over prior year revenues of $38,492. Most notable increases were in Autos and Containers. Break Bulk revenues declined, as did Military and other miscellaneous revenues to a lesser degree. Included in the above revenue increase was an additional $1,140 in port security fees ($2,371 in FY07 vs $1,231 in FY06).

Operating expenses, including depreciation and amortization, for 2007 were $40,927, a decrease of $2,912 from 2006. A significant reduction in dredging activity resulted in a decrease in dredging expense of $3,984 ($773 vs $4,757) in 2007. Depreciation and

Revenue, Expenses and Changes in Net Assets - 2007 vs. 2006 (cont.)

amortization also declined $311, as several assets became fully depreciated. Salaries and benefits were up $1,054 ($12,509 vs $11,455), a 9.2% increase. Salaries were up $602, reflecting some increased headcount and wage increases, Benefits were up $452, primarily pension contributions and health insurance costs. Repairs and Maintenance expense were up $576, or 34.1%, reflecting increased regulatory required inspection costs of $313 and equipment maintenance expense up $269. Various other expense categories were over and under but all less than 5% fluctuation. No Bad Debt expense was required in 2007, and in fact resulted in a ($95) credit adjustment, as the allowance for doubtful accounts calculation showed bad debt reserves to be overfunded, a result of good collections history and no bad debts or significant past due accounts at year end.

Non-operating revenue (expense) for 2007 was ($546), as compared to 2006 ($5,462). The significant event in 2006 was a recording of an impairment loss on two obsolete cranes of ($5,287). Other non-operating activities of note include Interest Income, up $200 in 2007 ($888 vs $688), and reduced Operating Grants of $359 in 2007 ($0 vs $359). Shared Revenue from Primary Government and Interest Expense were relatively flat year to year.

Capital contributions were up $4,049, as 2007 recorded significant contributions of $4,587 driven by heavy construction project activity. 2006 capital contributions were $538.

As a result of the above, the Authority recorded an increase in net assets during fiscal year 2007 of $3,019 as compared to a net decrease of ($10,271) in 2006.

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:

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

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

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 fiscal year 2005.

(In thousands of dollars)	2007	2006	2005
CHANGES IN NET ASSETS			
Operating revenue	$ 39,905	$ 38,492	$ 33,020
Other operating revenue - insurance premium adj	-	-	1,078
Total operating revenue	39,905	38,492	34,098
Operating expenses	40,927	43,839	39,600
Operating loss	(1,022)	(5,347)	(5,502)
Non-operating revenue (expense)	(546)	(5,462)	2,210
Loss before capital contributions	(1,568)	(10,809)	(3,292)
Capital contributions	4,587	538	2,047
Changes in net assets	3,019	(10,271)	(1,245)
NET ASSETS			
Beginning of year	284,524	294,795	296,040
End of year	$ 287,543	$ 284,524	$ 294,795

Cash Flows

2007 vs. 2006

Net cash provided by operating activities was $17,048 in 2007 which includes a $5.1 million customer advance payment, scheduled to be received in October 2007 (Fiscal Year 2008). An adjusted 2007 amount, for purposes of comparison, would be $11,928, still a net increase of $2,228 over 2006 net cash from operating activities of $9,700. Major components of the increase were increased receipts from customers resulting from increased revenues in 2007. Payments to suppliers were reduced $3,503, primarily dredging expense related savings in 2007.

Net cash provided by non-capital financing activities was up $1,056, reflecting increase receipts from primary government of $2,264 and reduced operating grants receipts of $1,208 (FEMA).

Net cash used in capital and related financing activities show an increase of $65,512, a result of a net positive position in 2007 of $46,779 compared to a net reduction in 2006 of ($18,733). The explanation of the increase is attributable to net MOL funding sources less construction spending activities. Net cash restricted for MOL construction at 9-30-07 was $65,239.

Net cash flows from investing activities and other were $1,008 in 2007 as compared to $265 in 2006, an increase of $743. Accounting for the increase was increased interest on investments of $245 and an insurance recovery in 2007 of $455 related to the Bartram Island dike breach, 2006 incurred expenses related to this same event.

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 2005). Capital asset expenditures for both 2006 (MOL $14 million) and 2005 (Blount Island tenant relocation $16 million) were 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.

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, 2007 and 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

2007 vs. 2006

The Authority had $422,532, net of accumulated depreciation, invested in capital assets as of September 30, 2007 compared to $358,413 as of September 30, 2006, a net increase of $64,119. Construction spending in 2007 for the MOL Terminal was $56,695; the next largest capital outlay pertains to Land acquisition cost of $5,465. Several other smaller projects, in the $1 million to $3 million range make up the additional outlay. Depreciation of approximately $15.1 million was also recorded in fiscal year 2007, consistent with amounts recorded in fiscal year 2006.

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 of $5,287.

Long-Term Debt

2007 vs. 2006

As of September 30, 2007, the Authority had outstanding bonds payable of $81,184 (net of unamortized bond discounts and deferred loss on refunding), and outstanding capital lease obligations of $7,169. Accounting for the increase in outstanding bonds payable is as follows: 1) proceeds to date from a $50 million Florida State Infrastructure bank (SIB) loan of $11,450, and 2) reductions in debt outstanding from scheduled payments in 2007 on existing bonds payable and capital lease obligations of $2,838 and $892. Additional Long Term Debt obligations added in 2007 include increased Line of Credit Borrowings of $9,458. Balances outstanding at 2007 were $23,475 as compared to prior year balances of $14,017. The Line of Credit is used primarily to fund MOL construction disbursements awaiting repayment from other long term debt sources (SIB), and other Authority capital and capital projects. The SIB loan is solely designated for the MOL terminal project. The Authority exceeded its required minimum debt service ratio for the 2007 Fiscal Year.

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.

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.

Statements of Net Assets

(In thousands of dollars)	September 30, 2007	2006
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	$ 5,382	$ 5,142
Due from primary government	4,172	5,206
Accounts receivable, net of allowance	3,434	3,578
Other receivables	163	476
Grants receivable	3,254	2,591
Inventories and other assets	1,497	1,496
Restricted cash and cash equivalents	8,883	4,338
Restricted cash for Capital Projects in process	65,239	-
Other restricted assets	837	631
Total current assets	92,861	23,458
Noncurrent assets		
Dredged soil replacement rights, net	1,409	1,747
Bond issuance costs, net	1,053	1,677
Due from primary government	-	554
Restricted cash and cash equivalents	3,789	3,884
Restricted investments	1,972	1,678
Capital assets, net	422,532	358,413
Total noncurrent assets	430,755	367,953
Total assets	523,616	391,411
LIABILITIES		
Current liabilities		
Accounts payable	2,225	2,679
Accrued expenses	1,031	1,022
Capital lease obligations	927	892
Accrued interest	2,047	1,939
Deferred revenue	2,638	3,262
Construction contracts payable	15,272	1,574
Retainage payable	2,308	67
Other current liabilities	938	772
Current liabilities payable from restricted assets - bonds and notes payable	7,655	2,555
Total current liabilities	35,041	14,762
Noncurrent liabilities		
Deferred revenue - non current (total $99,446 of which $2,638 is current)	96,808	-
Insurance reserve	200	200
Accrued expenses - non current	796	722
Line of credit	23,457	14,017
Bonds and notes payable, net of original issue discount and deferred loss on refunding	73,529	70,017
Capital lease obligations	6,242	7,169
Total noncurrent liabilities	201,032	92,125
Total liabilities	236,073	106,887
NET ASSETS		
Invested in capital assets, net of related debt	259,987	260,537
Restricted for		
Debt service	12,260	7,491
Other	378	329
Unrestricted	14,918	16,167
Total net assets	$ 287,543	$ 284,524

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

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

(In thousands of dollars)	2007	2006
OPERATING REVENUE	$ 39,905	$ 38,492
OPERATING EXPENSES		
Salaries and benefits	12,509	11,455
Services and supplies	3,818	4,021
Security services	3,979	3,789
Business travel and training	270	261
Promotions, advertising, dues and membership	939	964
Utility services	872	902
Repairs and maintenance	2,264	1,688
Dredging	773	4,757
Bad debt expense	(95)	100
Miscellaneous	68	61
Total operating expenses	25,397	27,998
Operating income before depreciation and amortization	14,508	10,494
DEPRECIATION AND AMORTIZATION EXPENSE	15,530	15,841
Operating loss	(1,022)	(5,347)
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(4,718)	(4,641)
Investment income	888	688
Shared revenue from primary government	3,506	3,600
Operating grants	-	359
Gain (loss) on sale of assets	(23)	56
Asset Impairment Loss	-	(5,287)
Other	(199)	(237)
Total non-operating revenue (expense)	(546)	(5,462)
Loss before capital contributions	(1,568)	(10,809)
CAPITAL CONTRIBUTIONS	4,587	538
Change in net assets	3,019	(10,271)
NET ASSETS		
Beginning of year	284,524	294,795
End of year	$ 287,543	$ 284,524

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

Statements of Cash Flows

(In thousands of dollars)	Years ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 42,705	$ 36,574
Receipts from primary government	-	851
Payments to suppliers	(13,276)	(15,879)
Payments to/for employees	(12,381)	(11,846)
Net cash provided by operating activities	17,048	9,700
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from operating grants	-	1,208
Receipts from primary government	5,094	2,830
Net cash provided by noncapital financing activities	5,094	4,038
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	11,450	-
Line of credit activity	9,458	12,023
Proceeds from conduit debt	99,077	-
Contributions-in-aid of construction	3,924	320
Repayment of customer advances	(5,500)	-
Acquisition and construction of capital assets	(63,739)	(23,074)
Principal paid on capital debt	(3,447)	(3,369)
Interest paid on capital debt	(4,458)	(4,689)
Proceeds from sale of assets	14	56
Net cash provided (used) by capital and related financing activities	46,779	(18,733)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	888	643
Purchase of investment securities	(2,786)	(2,764)
Proceeds from sale and maturities of investment securities	2,505	2,622
Other	401	(236)
Net cash provided by investing activities	1,008	265
Net increase (decrease) in cash and cash equivalents	69,929	(4,730)
CASH AND CASH EQUIVALENTS		
Beginning of year	13,364	18,094
End of year	$ 83,293	$ 13,364
RECONCILIATION OF OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income before depreciation and amortization	$ 14,508	$ 10,494
Adjustment to reconcile operating income before depreciation and amortization to net cash provided by operating activities		
Provision for uncollectible accounts	(95)	100
Changes in assets and liabilities:		
Account receivable and other current assets	535	591
Accounts payable, accrued expenses and other current liabilities	2,100	(1,485)
Net cash provided by operating activities	$ 17,048	$ 9,700

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

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 Port Authority (the "Authority").

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

3. Fund structure (cont.)
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 liability is incurred, 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 Operating/Non-Operating Schedules and the Capital Schedule as needed up to $50,000. Once the $50,000 limit is reached, City Council approval must be obtained. Operating budget item transfers require Executive Director, Deputy Executive Director/Chief Financial Officer, or Director of Finance approval. Line-to-Line capital budget transfers of $50,000 or less require the same approval levels. Line-to-Line capital budget transfers of more than $50,000 require the same approval levels, with additional notification to the Board if deemed necessary by any of the above mentioned parties. Any Capital Budget transfer creating a new capital project greater than $1,000,000 requires Board approval.

All appropriations lapse at the end of each fiscal year and must be re-appropriated.

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

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

Costs for targeted land expansion, such as appraisals, legal costs, and feasibility studies associated with potential land purchases are capitalized initially, and subsequently included in the costs of the land asset when acquired. If determination is made that the land purchase is unsuccessful, not feasible, or determination is made not to proceed with the land purchase, any associated capitalized cost is expensed at the time the Authority determines or opts not to proceed.

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 2007 and 2006 was $1,146,000 and $1,052,000, 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 $3,500,000 and $3,600,000 in 2007 and 2006, 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 2006 financial statement presentation in order to conform to the 2007 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, 2007, was A1+ for Commercial Paper and A1+ for FHLMC holdings.

The composition of securities held by the Authority as of September 30, 2007 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, 2006	Purchases	Sales	Change in Fair Value	Fair Value at September 30, 2007	Cost at September 30, 2007
FNMA	$ 1,087	-	(1,090)	3	-	$ -
FHLMC	$ -	1,111	-	9	1,120	$ 1,111
Commercial Paper	$ 591	1,675	(1,415)	1	852	$ 847
Total	$ 1,678	2,786	(2,505)	13	1,972	$ 1,958

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

Security Type:	Fair Value at September 30, 2007	Cost at September 30, 2007	Maturity Date	Fixed Rate of Interest
FHLMC	$ 1,120	$ 1,111	Aug-08	4.70%
Commercial Paper	$ 852	$ 847	Oct-07	5.38
Total	$ 1,972	$ 1,958		

NOTE C - CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2007 was as follows:

2007 *(in thousands)*	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 105,858	$ 280	$ -	$ 106,138
Construction in progress	33,380	78,272	(9,441)	102,211
Total capital assets not being depreciated	139,238	78,552	(9,441)	208,349
Other capital assets				
Buildings	70,566	76	(744)	69,898
Improvements	244,590	7,960	(1,263)	251,287
Equipment	77,888	2,247	(4,859)	75,276
Equipment under capital leases	22,242	-	-	22,242
Total other capital assets at historical cost	415,286	10,283	(6,866)	418,703
Less accumulated depreciation for:				
Buildings	26,541	2,517	(734)	28,324
Improvements	115,923	8,500	(1,262)	123,161
Equipment	48,714	4,114	(4,726)	48,102
Equipment under capital leases	4,933	-	-	4,933
Total accumulated depreciation	196,111	15,131	(6,722)	204,520
Other capital assets, net	219,175	(4,848)	(144)	214,183
Capital assets, net	$ 358,413	$ 73,704	$ (9,585)	$ 422,532

NOTE C - CAPITAL ASSETS (cont.)

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

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

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 against the interest earned on the invested proceeds of specific purpose tax-exempt borrowings. The capitalization period is from the time of the borrowing until the completion of the project. As of end of fiscal year 2007, MOL construction-related cash balances had earned interest income of $1,515, which accounts for the net credit balance in the Capitalized Interest account at year end of ($801). This credit balance is temporary as debt interest expense offsets will occur during 2008 and thru early 2009, until the project construction phase is completed.

The following schedule summarizes capitalization of interest for the Authority for the fiscal years ended September 30, 2007 and 2006:

(In thousands of dollars)	2007	2006
Total interest expense incurred	$ 3,917	$ 4,918
Interest expense associated with construction	714	277
Interest earned in construction accounts capitalized	(1,515)	-
Net interest capitalized	(801)	277
Net interest expense incurred	$ 4,718	$ 4,641

NOTE E - LEASING OPERATIONS

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, 2007, are as follows:

(Amounts in thousands)	MOL	All Other	Total
2008	$ 2,638	$ 10,654	$ 13,292
2009	5,869	9,508	15,377
2010	5,869	6,876	12,745
2011	5,869	5,374	11,243
2012	5,869	5,231	11,100
Thereafter	152,589	51,576	204,165
	$ 178,703	$ 89,219	$ 267,922

NOTE F - LESSOR OBLIGATIONS TO MITSUI O.S.K. LINES, LTD. (MOL)

In August, 2005, the Authority entered into an Operating and Lease Agreement with Mitsui, O.S.K., LTD., a Japanese Corporation (Lessee), whereby the Authority (Lessor) agrees to construct a 158 acre container terminal for exclusive use by the lessee. The 30 year lease term begins at the date of project completion, anticipated at the beginning of 2009. The lessee is responsible for all operational costs of the facility over the lease term.

At the expiration of the lease term (which is expected to be in 2038), the lessee will have the option to extend the lease agreement in 10 year increments. Per terms of the 30 year agreement, all constructed facilities and equipment will be owned by and reflected as capital assets of the Authority.

As of September 30, 2007, project capital spending was $71.4 million.

Financing

Cost of the project is estimated to be in the $195 to $220 million range. The agreement stipulates that MOL will provide funding for the first $195 million and the Authority is responsible for costs exceeding this amount up to $220 million. The funding provided from MOL which comprises their $195 million commitment is as follows:

$100 million in Special Purpose Bonds, Series 2007 (SPB), issued in April 2007 as conduit debt designated for the Mitsui O.S.K. Lines, Ltd. Project. The Authority has no obligation to pay the Series 2007 bonds, which will be payable by MOL through an irrevocable direct-pay Letter of Credit by Sumitomo Mitsui Banking Corporation.

A FDOT Florida State Infrastructure Bank Loan (SIB) of $50 million issued in 2007, and Port Authority Bonds of $45 million, expected to be issued in early 2008. MOL will provide scheduled monthly rent payments to the Authority to meet debt service requirements. The terms for the SIB rent payments are 12 years with scheduled payments through 2018, and the bond related rent payments are for a 15 year term through 2022.

Revenue Recognition

The revenue for this transaction will be accounted for on a straight-line basis over the lease term, in accordance with Financial Accounting Standard Board (FASB) Number 13. The initial bond proceeds of $99.1 million have been reported as deferred revenue and will be amortized over the lease term. In addition, as monthly rent payments are made to cover the SIB and Port Authority Bonds, they are also included in the deferred revenue computation and will be amortized over the same term.

The monthly rent payments which cover the debt service requirements of the Authority, excluding the conduit debt, will be satisfied in 2022. Since the monthly rent payments will discontinue on that date, there will be no lease rent receipts collected in years 2023 through 2038. However, ongoing cargo throughput fees, and other tariff related type charges will be the primary revenue sources.

NOTE G - 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.

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.

2. City pension plan

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. The employees participating in this plan are required to contribute 8.0 percent of eligible wages. Employer contribution amounts are revised annually; the 2007 fiscal Authority contribution amount was 11.68 percent and will decline slightly in 2008, to 10.96 percent. The employee contribution has remained constant at 8.0 percent.

2. City pension plan (cont.)
The total contribution requirement for both plans in the accompanying financial statements was $906,000 and $688,000 for the years ended September 30, 2007 and 2006, respectively.

NOTE H - 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 $3,163,000 and $2,981,000 as of September 30, 2007 and 2006, 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 $837,000 and $637,000 as of September 30, 2007 and 2006, respectively. The Authority's 401(a) matching contributions were $129,000 and $121,000 for the years ended September 30, 2007 and 2006, respectively.

NOTE I - 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 $169,000 and $242,000 for the years ended September 30, 2007 and 2006, respectively.

The Authority is also a participant in the City's property insurance program. This allows the Authority to receive the best available property insurance rates. Premium expense amounted to $410,000 and $305,000 for the years ended September 30, 2007 and 2006, 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 J - LINE OF CREDIT

The Authority currently has a $50,000,000 Line of Credit Revenue Note with SunTrust Bank. The purpose of the Line of Credit is twofold: 1) to provide short term funding associated with the MOL construction project, as an immediate source of cash while draws in process from the Florida State Infrastructure Bank (SIB) Loans are processed, and 2) to fund the Authority's capital development plan.

Terms of the line of credit are as follows: an initial three-year term, with an additional two-year term-out option. Interest is due semi-annually, while principal is due at the end of the three-year initial term (first principal payment due November 1, 2008). The rate is tied to a LIBOR index, but has consistently averaged 5 to 5.75% annually. The outstanding balance at September 30, 2007 is $23,457,407, of which approximately $13.6 million are MOL SIB related draws (subsequently reimbursed by the SIB), and approximately $9.8 million of borrowings associated with other Authority capital and capital projects. The Line of Credit is classified as a long-term liability since the first principal payment is due on November 1, 2008. The extended maturity date of the note is November 1, 2010.

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

Noncurrent liability activity for the years ended September 30, 2007 and 2006 was as follows:

	2007				
(In thousands of dollars)	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable, notes payable and capital leases					
Revenue bonds	$ 20,370	$ -	$ (1,095)	$ 19,275	$ 1,145
Revenue refunding bonds	55,935	430	(1,460)	54,905	1,610
Capital leases	8,061		(892)	7,169	927
State Infrastructure Bank Loan	-	11,450	-	11,450	4,900
	84,366	11,880	(3,447)	92,799	8,582
Less original issue discounts and deferred loss on refunding	(3,733)	-	188	(3,545)	-
Total noncurrent	$ 80,633	$ 11,880	$ (3,259)	$ 89,254	$ 8,582

(in thousands of dollars)	2006				
	Beginning	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

Long-term debt and capital leases at September 30, 2007 and 2006 consisted of the following:

(in thousands of dollars)	2007	2006
Revenue Bonds, Series 2000, including serial bonds due in varying amounts through 2030. Interest rates range from 4.50% to 5.7%.	$ 19,275	$ 20,370
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
Revenue Refunding Bonds, Series 2006, sold as Auction Rate Certificates (ARCs) due in varying amounts through 2018, subject to annual sinking fund redemption. Due to the 2003 Swap Agreement, interest rates are at a synthetically fixed rate of 5.215%.	54,905	-
Florida State Infrastructure Bank loan - 2007, Subordinate Obligation due in varying amounts through 2018. Interest is at an annual rate of 3%.	11,450	-
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%.	7,169	8,061
	92,799	84,366
Less current portion	8,582	3,447
	$ 84,217	$ 80,919

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.

In November of 2006, the Authority issued $54,905,000 in Revenue Refunding Bonds, Series 2006 Auction Rates Certificates. 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.

The Series 2000 and 2006 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 operating revenues and operating income in excess of its annual debt service on the various outstanding bonds. The Series 2000 and 2006 Bonds also place restrictions on the Authority's issuance of debt on parity with bonds currently outstanding.

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 25 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 March of 2007, the Authority executed a State Infrastructure Bank (SIB) Loan Agreement with the State of Florida Department of Transportation for a total loan amount of up to $50,000,000. The SIB loan is a component part of the MOL project funding; the designated source of repayments is MOL lease payments, as prescribed in the MOL lease agreement with Authority. The SIB loan is designated as a Subordinate Obligation, and structured as a draw-down loan type financing agreement. The loan balance (draws received) as of September 30, 2007 is $11,449,969.

1. Debt maturities

Required debt service for the outstanding revenue bonds for the next five years and thereafter to maturity as of September 30, 2006 was as follows:

(In thousands of dollars)	Interest	Principal
Years ending		
2008	$ 3,867	$ 2,755
2009	3,724	2,905
2010	3,547	3,960
2011	3,335	4,180
2012	3,111	4,425
Thereafter	20,710	55,955
	$ 38,294	$ 74,180

The following is a schedule of future minimum lease payments under capital leases as of September 30, 2007:

(In thousands of dollars)	
Years ending	
2008	$ 1,197
2009	1,197
2010	1,197
2011	1,196
2012	1,196
Thereafter	2,257
Total minimum lease payments	8,240
Less: Amount representing interest	1,070
Present value of minimum lease payments	$ 7,170

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, 2007 and 2006 were as follows:

	2007		2006	
(In thousands of dollars)	Principal Balance	Investment Balance With Escrow Agent	Principal Balance	Investment Balance With Escrow Agent
Revenue Bonds, Series 2000	$ 13,440	$ 14,390	$ 14,205	$ 15,152

3. Original Issue Discount and Deferred Loss on Refundings

Unamortized issue discount on Bonds and Notes Payable were $509 and $2,025 in 2007 and 2006, respectively. Unamortized deferred loss on refundings was $3,937 and $1,708 in 2007 and 2006, respectively.

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 $796,000 and $722,000, for 2007 and 2006, respectively. Total accrued leave

Other Noncurrent Liabilities (cont.)
plan obligations are $1,146,000 and $1,052,000 for 2007 and 2006, respectively.

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.

NOTE L - 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 Authority with semi-annual payments of $145,000 beginning in November 2003 and ending in November 2018. These payments represent the risk-adjusted, present value savings of a refunding 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, 2007 and 2006, the underlying swap had a negative fair value estimating the zero-coupon method of $3,870,092 and $3,216,287, 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 M - 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. No operating grants were recorded in fiscal year 2007.

NOTE N - COMMITMENTS AND CONTINGENCIES

At September 30, 2007, the Authority had commitments for future construction work of approximately $164,000,000. The major project commitment related to the MOL container terminal project ($147 million).

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.

The Authority's workforce is made up of approximately 151 employees. Union employees represent about 46% of the total. In 2007, the union contract renewed for an additional three-year term, and expires on September 30, 2009.

NOTE O - 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

1. City of Jacksonville Excise Tax Revenue Bonds (cont.)
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, 2007, the Authority had drawn approximately $35,057,000 of eligible expenditures.

3. Federal contributions
In 2007, The Authority received $1,441,770 of funding from the FEMA/Office of Domestic Preparedness (ODP). These amounts are in addition to funding received prior to 2007, $4,457,000 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 2007, the Authority received $268,000 from US HUD for property development. Total available Federal Grants received through September 30, 2007, as itemized above, are $10,893,770.

Approximately $1,361,000 and $512,000 were recognized as contributions in the Statements of Revenue, Expenses and Changes in Net Assets for the years ended September 30, 2007 and 2006, respectively. As of September 30, 2007, the Authority had drawn approximately $4,792,000 of eligible expenditures. The Authority has an available balance of $6,102,000 as of September 30, 2007.

4. Other capital contributions
The Authority has received additional capital funding in from other State grants. Approximately $3,355,918 and $25,000 were recognized as contributions in the Statements of Revenue, Expenses and Changes in Net Assets for the years ended September 30, 2007

and 2006, respectively. As of September 30, 2007, the Authority had drawn approximately $1,867,155 of eligible expenditures. The Authority has an available balance of $17,682,845 as of September 30, 2007.

NOTE P - SUBSEQUENT EVENTS

1. Eminent Domain Proceedings

The Authority is currently proceeding with eminent domain procedures to obtain approximately 65 acres of property adjacent to existing terminal properties. These proceedings are part of an eminent domain proceeding that constitutes approximately 92 acres. In December 2006, the Authority acquired an adjoining property consisting of 27 acres as part of these proceedings. The owner of the 65 acre parcel has rejected offers made by the Authority and shows no interest in making a settlement. A trial date is set for April 2008 to determine the market value of the property. While the court may determine appropriate value for the remaining acreage, the Authority is not required to purchase any of the additional property as part of these proceedings.

2. Other Land Acquisitions

The Authority is currently pursuing several properties suitable for expansion. The Authority also assesses opportunities within its currently owned land to maximize the use of its properties for new tenants and general expansion. Certain costs have been incurred and capitalized relative to several potential land acquisitions (approximately $200,000).

3. St. John's River Ferry Operations

Effective October 1, 2007 (fiscal year 2008), the Authority assumed from the City of Jacksonville, the St. John's River Ferry (also known as the Mayport Ferry). As part of the transfer, the Authority will maintain operations for a minimum of two years, through October 1, 2009. The agreement states that if at any time after October 1, 2009 the Authority determines the ferry service is negatively affecting its ability to fulfill its mission, it may discontinue ferry operations and subsequently return ferry related assets to the city. As part of the agreement, certain properties peripheral to the ferry operations may be retained by the Authority without any reversion rights.

The Authority anticipates the Ferry operations to operate at a deficit. Assets obtained from the city, as part of the Ferry Operations transfer approximate $4 million, primarily a ferry vessel with a book value of $1.9 million, docks and dock improvements of $1.3 million, and land with book value of $600,000.

4. Hanjin Shipping Co. Ltd, MOU

On October 18, 2007, the Authority executed a memorandum of understanding (MOU), with a South Korean company, Hanjin Shipping. Terms include a long-term lease with Hanjin, along with the construction of a $360 million 170 acre terminal facility, slated to begin operations in early 2011. At full capacity, the new terminal would have the capacity to handle 1 million containers, or 7.5 million tons of cargo a year.

5. Jacksonville Port Authority Revenue Bonds, Series 2008
In order to finance the Authority's capital budget, which includes the MOL/Trapac terminal, the Authority plans to issue Revenue Bonds, Series 2008 in early 2008. The bonds are fixed rate, 30 year bonds, and are for a not-to-exceed amount of $90 million.

6. Jacksonville Port Authority Commercial Paper Notes, January 2008
In addition to the aforementioned Revenue Bonds, and to complete the funding for the Authority's capital budget, the Authority plans to issue commercial paper notes in January 2008. The commercial paper will be issued in an amount not-to-exceed $85 million. The commercial paper notes provide the Authority with the funding flexibility to have funding in place if pending land acquisitions come to realization.

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