
# 2008 JAXPORT *annual report*

## *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.

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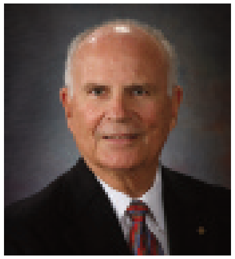
# A Message from JAXPORT

Life in Jacksonville just got better thanks to the recent and unprecedented growth of the Jacksonville Port Authority. JAXPORT's newly opened TraPac Container Terminal at Dames Point---our first direct shipping connection with Asia--- doubles Jacksonville's capacity to handle containerized cargo. That attracts nearly a billion dollars in new economic benefit to the region each and every year, creating thousands of high-paying jobs and translating into a better quality of life. And we're not done yet. As the TraPac terminal opens its gates, Hanjin Shipping of Korea has chosen JAXPORT as its East Coast hub. We are now ready to start work on this second new container terminal, bringing even more employment and opportunity to North Florida and propelling JAXPORT into the upper echelon of U.S. ports.

But JAXPORT's success reaches far beyond container cargo. In FY 2008, JAXPORT enjoyed a record-setting vehicle handling year, thanks to an extraordinary increase in exported cars, truck and heavy equipment. Our bulk business---crushed limestone and other aggregates used in construction---grew a healthy 10 percent over the previous fiscal year. And our newer, larger cruise ship, the Carnival *Fascination,* is attracting visitors from every U.S. state and beyond and sailing at better than 100 percent capacity every trip.

In FY 2008, JAXPORT earned nearly $42.4 million in operating revenues, the eighth consecutive year of record revenues. Even as operating expenses increased primarily due to infrastructure needs, Wall Street continued to take note of JAXPORT's financial performance, with two of the nation's premier rating services recently reaffirming strong financial grades for JAXPORT.

It is clear that the present fiscal year will be defined against the backdrop of a distressed world economy. Like every other business, JAXPORT is keeping a close eye on developments and is ready to act should adjustments be required. Still, now more than ever, it is clear that aggressive investment in a strong port is one of the surest ways to guarantee Jacksonville an easier ride through troubled times. We are proud to present the information contained in these pages, and prouder still to continue fulfilling JAXPORT's role as an economic powerhouse for the region.



Ricardo Morales, Jr.
2008 Chairman of the Board

Frederick R. Ferrin
Executive Director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# Financial HEALTH

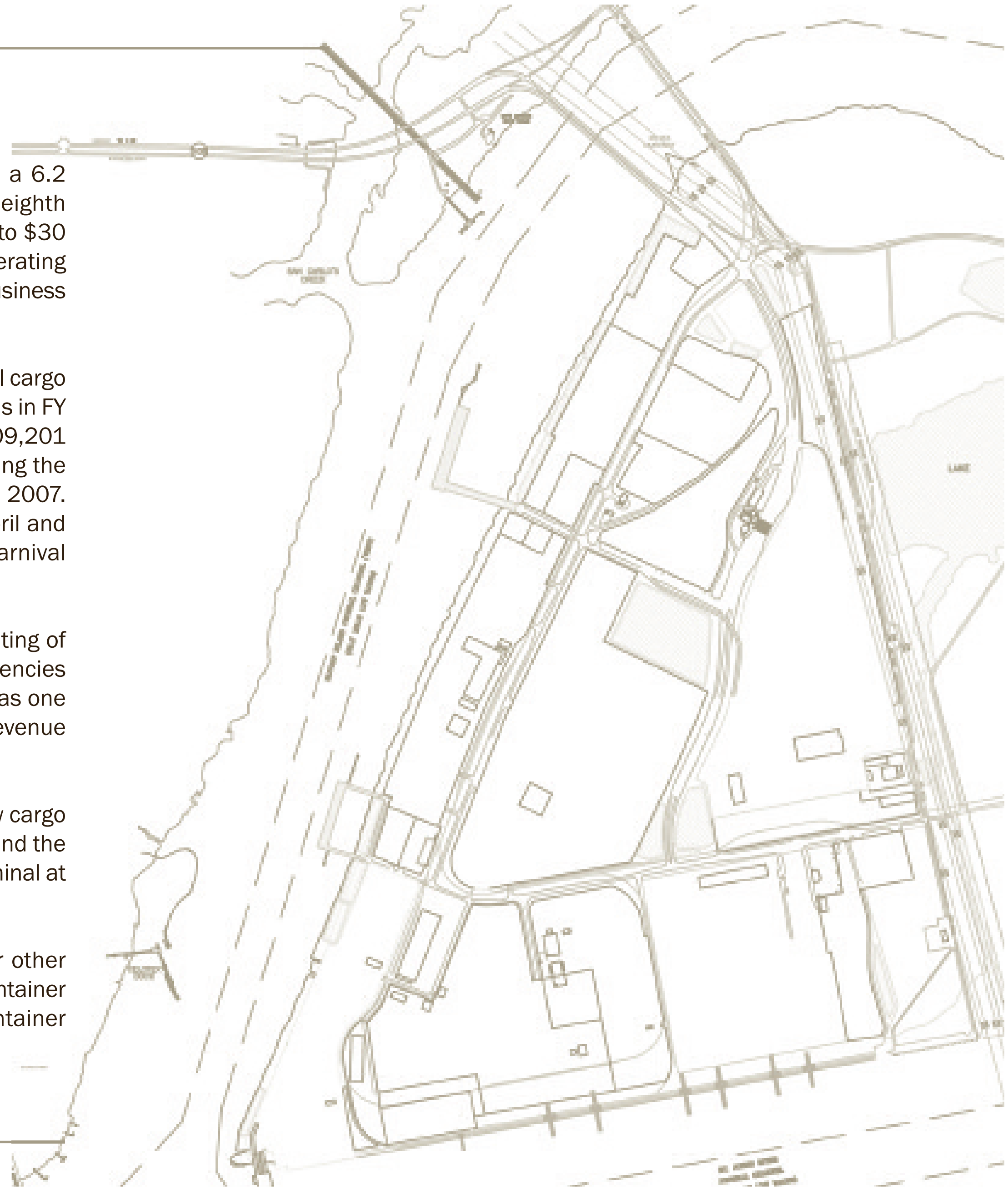
JAXPORT earned $42.4 million in operating revenues in FY 2008, a 6.2 percent increase over FY 2007 ($39.9 million) and the port's eighth consecutive year of record revenues. Operating expenses increased to $30 million, up from $25 million the previous year. At the same time, operating income fell to $12 million from $14.5 million in FY 2007 due to new business expenses and infrastructure costs.

These financial results reflect JAXPORT's solid year operationally. Total cargo shipped through JAXPORT facilities increased slightly to 8,395,510 tons in FY 2008, a little more than one percent increase from last year's 8,309,201 tons. A total of 76,474 passengers embarked on cruise ships departing the JAXPORT Cruise Terminal, down from the 129,838 embarkations in 2007. This decline reflects the retirement of the Carnival *Celebration* in April and a subsequent five month gap in service before the newer, larger Carnival *Fascination* began service in late September 2008.

In 2008, 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 major capital construction project in FY 2008 was the new cargo facility constructed in Northeast Jacksonville for Mitsui O.S.K. Lines and the company's terminal operating arm, TraPac. The TraPac Container Terminal at Dames Point opened for business in January 2009.

In addition, JAXPORT has budgeted approximately $600 million for other capital projects in FY 2009 including construction of a second new container terminal for Korea's Hanjin Shipping Company, Ltd. The Hanjin Container Terminal at Dames Point is expected to open in late 2011.

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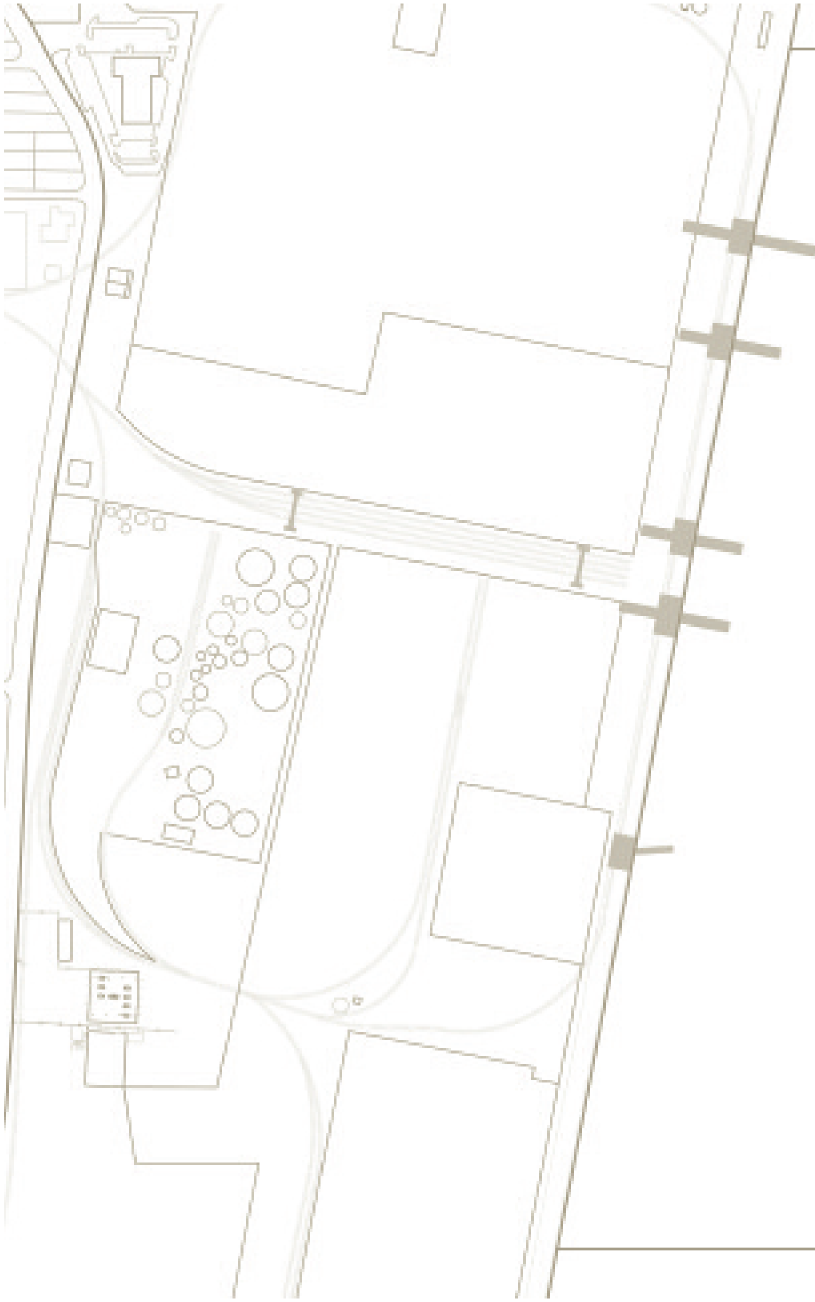


# *Economic* ENGINE

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 and the recent announcement of a second new terminal agreement with Hanjin Shipping Co. have 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.

It is expected that more than 75,000 North Florida residents will be employed in port-related activities within the next decade and that port industries will generate $5-6 billion for the local economy.

# MAYOR John Peyton
# City of JACKSONVILLE

"As I travel with the port's leadership securing business for our city, it's a pleasure to see the solid relationships they have built with our customers around the world. The great mix of cargo handled by JAXPORT will keep us in good stead through the coming months and years.

A bright future lies ahead. But we can't stop working and we cannot take anything for granted.

I can't stress enough how important it is to invest in our infrastructure. Make no mistake about it; we are in a race with Brunswick, Savannah and Charleston for the growth to come. They are pouring money into maritime infrastructure, dredging, roads and rail. If we are going to compete, we don't just have to catch up – we have to get AHEAD.

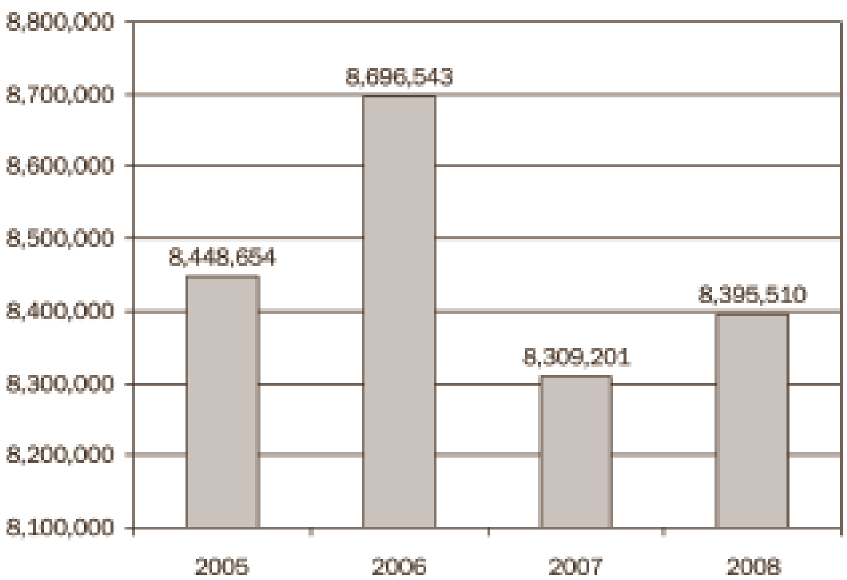
We MUST deepen the harbor to 50 feet to accommodate bigger ships. And we MUST improve transportation infrastructure to and from the port to increase our competitiveness and ensure a high quality of life for our residents."

# *Cargo* HIGHLIGHTS

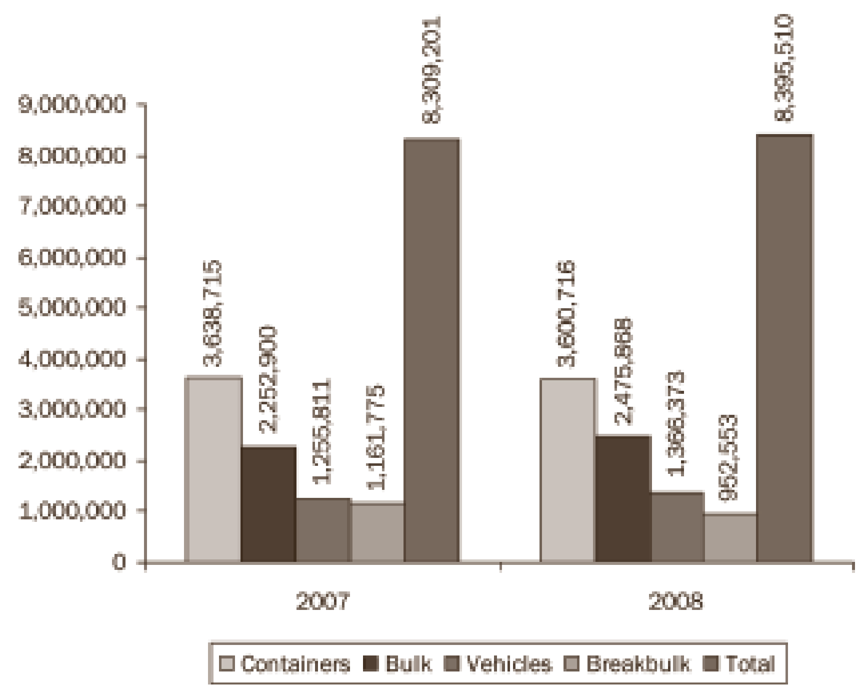
In FY 2008, JAXPORT facilities handled 8,395,510 tons of cargo, a one percent increase from FY 2007 when JAXPORT handled 8,309,201 tons. In addition, JAXPORT's vehicle handling figures hit an all time high in FY 2008 thanks to increases in exported cars and equipment. JAXPORT remains the nation's second busiest vehicle handling port and 12th busiest container port.

JAXPORT experienced gains in two of its four cargo types in 2008. The shipment of vehicles and other Ro/Ro cargoes – primarily passenger cars, trucks and heavy equipment – grew by nearly 7 percent to a record level with 656,805 units moving through JAXPORT. Bulk cargoes – including crushed limestone and other aggregates – grew to nearly 2.5 million tons, reflecting nearly a 10 percent increase over last year. Breakbulk cargoes – which include lumber, paper, steel, poultry and other non-containerized commodities – fell 18 percent to more than 950 thousand tons. Meanwhile, containerized cargoes – primarily consumer goods – remained nearly steady at 3.6 million tons.

### *Cargo* TONNAGE *in short tons*




### TONNAGE *in short tons*



# DR. Yemisi Bolumole
## University of NORTH FLORIDA

Dr. Bolumole is an Assistant Professor of Logistics at UNF's Coggin College of Business.

"JAXPORT's incredible expansion will increase the demand for infrastructure and support services across the entire region. Beyond these physical demands, local companies also must address increased workforce requirements, and employment related to the Jacksonville logistics industry is likely to grow rapidly in the coming years.

The University of North Florida's nationally ranked Transportation and Logistics Program is already well positioned to respond to these increased educational needs. In today's economic climate, where logistics may well represent the future for the region, UNF is recognized as the institution of choice for preparing the workforce for the exciting and rewarding careers represented in this industry. The program continues to demonstrate its responsiveness to the needs of multiple layers of the local and regional community through its provision of degree holders in one of the largest employment sectors in Jacksonville.

At UNF, we are pleased to support the port and the community as Jacksonville works to reach its full potential as a true center for transportation and logistics."

# *Cruise* HIGHLIGHTS

In FY 2008, JAXPORT's fifth year in the cruise business, Carnival Cruise Lines strengthened its commitment to Jacksonville as a homeport by replacing the Carnival *Celebration* with the newer, larger Carnival *Fascination*. Despite a five month gap in service due to the changeover, JAXPORT's cruise terminal served 76,474 passengers during FY 2008.

The 1,478-passenger *Celebration* took a total of 43 voyages out of JAXPORT's temporary cruise terminal at Dames Point in FY 2008 until the ship was sold in the spring. The *Fascination* began providing year-round service from JAXPORT in September and currently offers four and five-day cruises to Key West and the Bahamas. The *Fascination* carries 2,052 passengers, a 38 percent increase in capacity over the *Celebration*. Prior to its deployment to Jacksonville, the *Fascination* underwent a multi-million dollar renovation and passengers now enjoy many updated amenities.

Passengers continue to enjoy their cruise experience at JAXPORT with a total of 95 percent of those surveyed saying they would consider choosing Jacksonville again for their next cruise departure. In FY 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.

*Embarking Cruise Passengers*

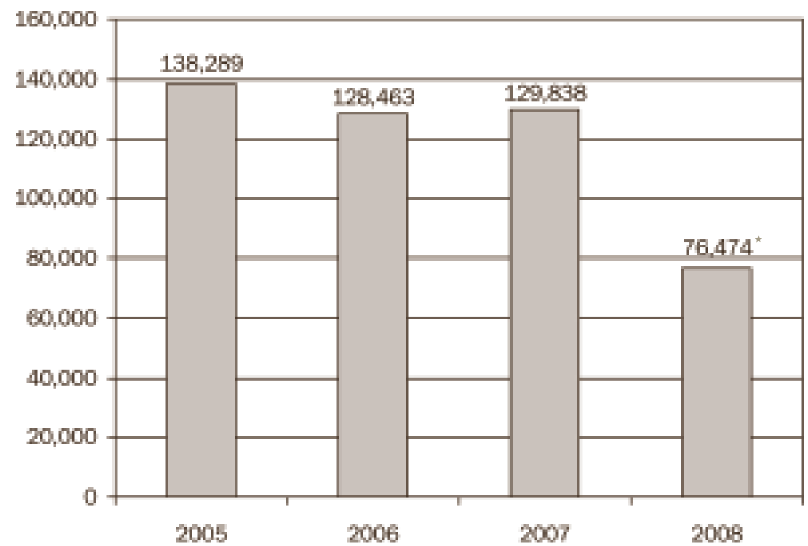



**figure reflects lack of cruise service between April and September 2008 due to ship change*


Fascination
FASCINATION


# DAVID Anderson
# Crowley SHIPPING

In FY 2008, crane operator David Anderson worked nearly 400 crane hours, moving nearly 10,000 pieces of cargo without a reportable incident, a record for JAXPORT's Talleyrand Marine Terminal.

"When I am way up there in the crane's cab at JAXPORT moving cargo with the team, I can really feel my place in the supply chain; I can really see the big picture. These are goods that people need, that industry needs to keep commerce flowing and to keep folks working.

Yes, it's also fun, almost like playing a big video game every day. Great view from my office window too!

Still the first thought I have when coming in to work is having everyone stay safe through the operation. I always say that little extra prayer as I take the ride up: safety first, taking care of the equipment second and getting the moves done on time, third.

Do I feel like a million bucks when we finish a job with no problems? You bet I do. We all do."

# COMMUNITY

JAXPORT takes pride in being an involved corporate citizen of the region. Our chartered mission to create employment and economic activity means we have a special interest 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.

Here are just some of the programs JAXPORT sponsored or participated in during FY 2008.

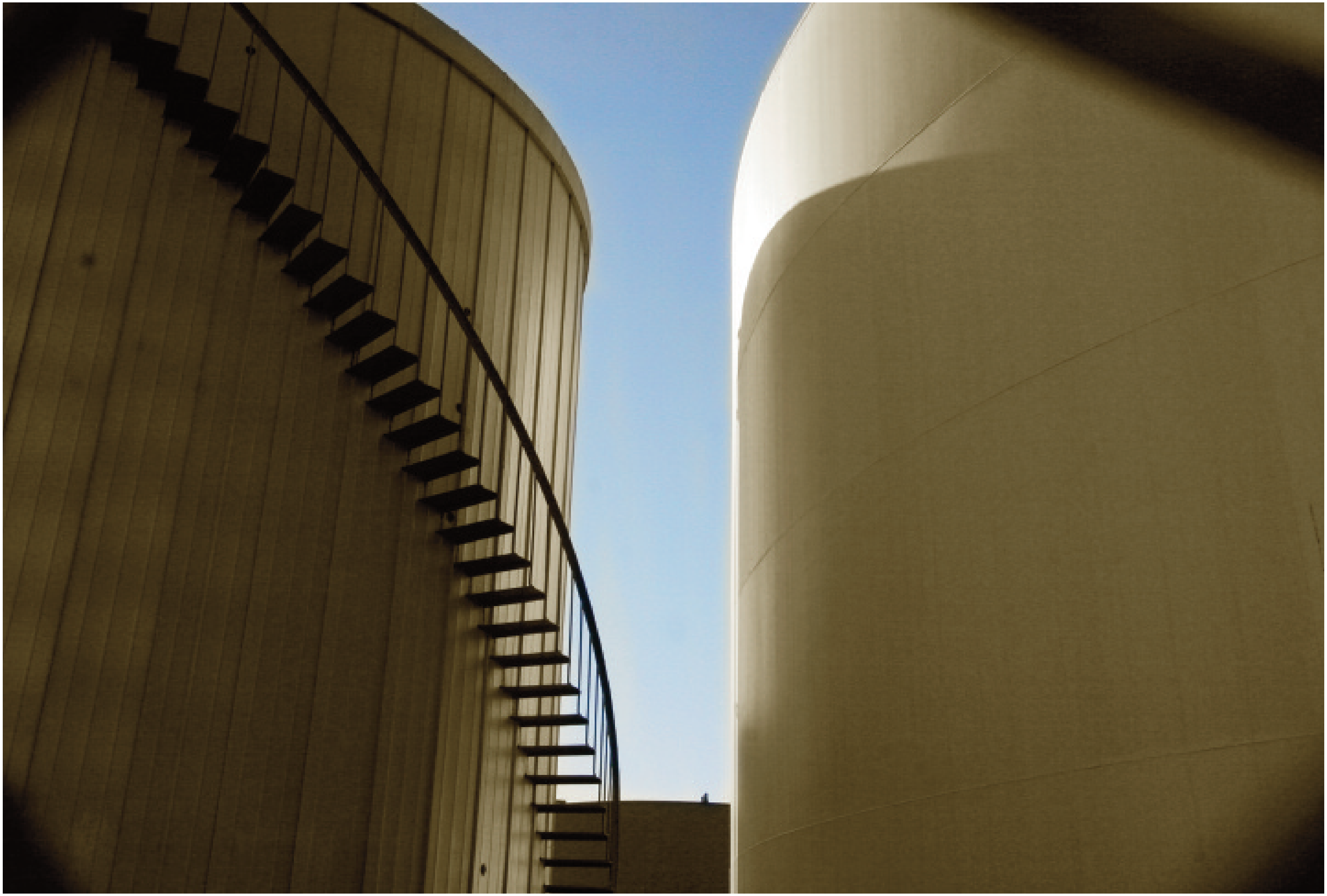
Environment
- Greenscape of Jacksonville's Annual Tree Sale
- Jacksonville Community Council Inc.'s "Environment, Energy and the Economy" study
- St. Johns Riverkeeper's "River Friendly Yards" brochure
- Tree Hill Nature Center's environmental programs, including the Butterfly Festival

Jobs
- The jaxportjobs.com website serving 70,000+ registered users and 180 companies
- Careers in Transportation, Logistics and Manufacturing Career Fair --1,600 attendees
- Talleyrand District Career Fair with City Councilman Johnny Gaffney–2,500 attendees

Education
- Duval County and St. John's County Public Schools "Career Academies"
- Mentoring program at R.L. Brown Elementary School
- JAXPORT/South Atlantic Caribbean Ports Association Annual College Scholarship

Small Business
- The International Trade Certificate Program-Export Series and Importing Basics Session
- The Florida Black Expo
- Minority Enterprise Development Week at the 2008 Youth Entrepreneur Summit
- Asian, Indian, Hispanic, Brazilian and African American Chambers and Alliances

Community
- JAXPORT's 150+ employees contributed $37,000 to the United Way of Northeast Florida and the Community Health Charities' 2008 Campaign
- Hands-on Jacksonville's "Visit from St. Nick" providing books and toys to 650 children
- Angel Tree of Giving, District 7 Seniors and Heart for Children Christmas events



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# *the* FUTURE

2009 is already a historic year for JAXPORT with the opening of the TraPac Container Terminal at Dames Point, but there is further progress on the horizon.

DEVELOPMENT OF THE HANJIN CONTAINER TERMINAL
The signing of a lease with Hanjin Shipping Co. of South Korea marks JAXPORT's ascent into the top tier of U.S. seaports. The next year will be spent designing and permitting the 90-acre, $300 million terminal. When fully operational, the Hanjin terminal will be able to handle at least 800,000 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.

CONSTRUCTION OF A NEW CRUISE TERMINAL
While JAXPORT's current Heckscher Drive cruise terminal has been extremely successful, attracting hundreds of thousands of passengers during the last five years, the height restrictions posed by the Dames Point Bridge mean the terminal must move somewhere east of the bridge. Under direction from the JAXPORT Board of Directors, our staff has been working on plans to relocate the terminal, allowing Jacksonville to continue to benefit from a growing, thriving tourism-based industry.

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 funding in place, the project should begin in 2009. When completed, Jacksonville's entire 21-mile shipping channel will be at a 40-foot depth. JAXPORT has begun work with the federal government to examine the potential for additional deepening in the future, a crucial component in the plan to attract future seaport business to Jacksonville.

CONTINUE TO ENHANCE PORT SECURITY
In late 2008, JAXPORT became one of the first ports in the nation to begin implementing the Federal Transportation Worker Identification Credential, which requires all regular port users to be registered with the Department of Homeland Security. In addition, JAXPORT's new Security Operations center near the Dames Point and Blount Island Marine Terminals consolidates 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, a crucial move towards expanding security capabilities as the port continues to grow.

CONTINUE EXPANSION OF FOREIGN TRADE ZONE
In late FY 2008, JAXPORT received federal approval of its application for expansion of the general purpose zone (FTZ #64). After the expansion, Johnson Development is the new operator of a 48-acre facility within West Lake Industrial Park. Other approved sites include acreage at Jacksonville International Airport, the International Tradeport and Imeson Industrial Park, as well as Blount Island and Talleyrand Marine Terminals. JAXPORT is now working on a zone reorganization plan to be submitted in the first quarter of 2009. This plan will allow JAXPORT to accommodate several new user site requests and more strategically position currently available FTZ land throughout Jacksonville for warehousing and distribution operations.


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# JACKSONVILLE PORT AUTHORITY
## Financial Statements
## For the years ended September 30, 2008 and 2007

# 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, 2008 and 2007, 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, 2008 and 2007, 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 January 14, 2009, 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 33 through 38 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 14, 2009
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

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, 2008. The discussion is intended to assist the readers in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. All presented amounts are in thousands. We encourage readers to consider the information contained in this discussion in conjunction with the Authority's financial statements.

## FINANCIAL HIGHLIGHTS

The Jacksonville Port Authority continues to expand its terminal operations footprint, grow its core lines of business, and enhance its role as an economic engine to both Jacksonville and North Florida economies. Accomplishments since its 2002 separation as a unique entity from the Airport include the following:

- Cargo tonnage has increased from 6.9 million tons to 8.4 million tons
- Operating revenue has increased from $27.1 million to $42.4 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
- In September 2008, the cruise business was enhanced as Carnival Cruise Line upgraded operations to a larger capacity Fantasy class vessel (the Fascination), replacing a previous Holiday class vessel. The newer vessel has capacity of over two-thousand passengers, and establishes Jacksonville as an attractive location for future cruise business growth.
- Executed leases with tenants who ship dry bulk aggregates, frozen food, and paper
- In addition to the near completion of the 158 acre Mitsui OSK Lines (MOL) terminal in 2008 (a 30 year lease beginning in early 2009), vessel calls from MOL have already begun effective in July 2008, at adjacent Authority facilities.
- Additionally, to further expand its east-west shipping patterns, the Authority executed in early 2009, a 30 year contract with the South Korean shipping line, Hanjin Shipping Co., for the development of a new terminal to be operational in 2011.
- The Authority continues to maintain its strong credit rating with Moody's Investors Services and Fitch affirming the rating of "A2" and "A" respectively.

Further highlights and discussion of the Authority's performance is contained in the following comparative financial statements and related management's discussion and analysis.

<u>2008 vs. 2007</u>

The Authority's operating revenue for 2008 was $42,363, up $2,458 (6.2%) from 2007 revenues of $39,905. Fiscal year 2008 includes a new source of revenues from Ferry Operations of $1,124. Adjusted for Ferry Operations, revenues were up year to year $1,334, or 3.3%. Autos and Container revenues accounted for the notable increases, up $1,943 (18%) and $613 (4%), respectively. Cruise revenues were down $967, almost 40%, as the Authority had a five month pause without cruise ship activity (as Carnival transitioned from a holiday class ship to a fantasy class ship). As scheduled, the cruise business was brought back on line in September 2008, with the larger capacity ship, the Fascination. The remaining reduction in revenues, a net decline of $255, was attributable to declines in Military business of $456, partly offset by slight gains in Dry Bulk and Liquid Bulk business.

Operating expenses for 2008, less depreciation and amortization, were $30,325, up $4,928 (19.4%) over prior year. Included in FY08, is Ferry operations expense of $1,610, the largest expense item included in services and supplies expense. Also within services and supplies, were other increased expenditures totaling $950, most significant was fuel related (up $417), and numerous other line item increases including legal, consultants, and worker compensation premiums. Salaries and benefits were up $1,050, or 8.4%. Security costs were up $582, an increase of 14.6%. Dredging cost totaled $1,101, up $328 (42%) from prior year. Utility costs were up $195, an increase of 22.4%. As a result of the above, operating income before depreciation and amortization was $12,038, a decrease of $2,470 compared to prior year.

Net non-operating revenues/(expense) in 2008, resulted in net expenses of ($16,545), as compared to net expense of ($546) in 2007. In 2008, the Authority recognized a significant charge of $14.5 million for legal fees and other costs related to eminent domain proceedings. Fiscal year 2008 also included an Asset Impairment Loss of $3.8 million (Crane Damages), simultaneously offset by a $5 million claim for recovery of damages. Other significant non-operating items were debt service interest of $5,961 up $1,243, or 26.3% over 2007, and shared revenue from primary government of $2,344, down $1,162, compared to 2007. Some of the decline in 2008 shared revenue was a result of overestimated income in 2007 of $358.

Capital contributions in 2008 were $29,676, reflecting heavy capital grants activity associated with numerous constructions projects in process. At close of fiscal year 2008, the Authority had net assets (total assets less total liabilities) of $295,938, an

**FINANCIAL HIGHLIGHTS (cont.)**

2008 vs. 2007 (cont.)

increase of $8,395 compared to prior year net assets of $287,543.

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. 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.

**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**

Net Assets

Net assets are a key indicator of an entity's financial position. At September 30, 2008, the Authority's net assets were $295,938, an increase of $8,395 from prior year net assets of $287,543. The majority of this increase was attributable to FY 2008 operating income before depreciation and amortization of $12,038, offset by non-operations expenses of $16,545 (of which $14,489 were legal costs related to eminent domain proceedings). Additive to the net asset position were Capital contributions of $29,676, offset by Depreciation and Amortization of $16,774.

**FINANCIAL ANALYSIS OF THE AUTHORITY (cont.)**

Net Assets (cont.)

These significant line items were the major components comprising the $8,395 increase in net asset balance in 2008.

| (In thousands of dollars) | 2008 | 2007 | 2006 |
|---|---|---|---|
| NET ASSETS | | | |
| Current assets | $ 150,646 | $ 92,861 | $ 23,458 |
| Noncurrent assets (excluding capital assets) | 11,487 | 8,223 | 9,540 |
| Capital assets | 575,705 | 422,532 | 358,413 |
| Total assets | 737,838 | 523,616 | 391,411 |
| Current liabilities | 112,354 | 35,041 | 14,762 |
| Revenue bonds outstanding (net of current portion) | 222,932 | 73,529 | 70,017 |
| Other noncurrent liabilities | 106,614 | 127,503 | 22,108 |
| Total liabilities | 441,900 | 236,073 | 106,887 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 271,042 | 259,987 | 260,537 |
| Restricted for debt service | 10,011 | 12,260 | 7,491 |
| Restricted - other | 3,147 | 378 | $329 |
| Unrestricted | 11,738 | 14,918 | 16,167 |
| Total net assets | $ 295,938 | $ 287,543 | $ 284,524 |

In terms of three-year trends, Capital assets have grown $217 million and include the nearly completed MOL terminal and other significant infrastructure related projects. Current assets at year end 2008 include approximately $120 million in restricted cash from bond proceeds and commercial paper designated for additional infrastructure/capital projects in process, or anticipated for 2009. Current liabilities at year end 2008 include $53 million in commercial paper short term borrowings, and correlate to a $53 million restricted cash balance, part of the $120 million restricted cash balances mentioned above. This $53 million in restricted cash will effectively be used to reduce short term commercial paper borrowings (current liabilities) in early 2009. These current borrowings and related cash balances were designated for anticipated land acquisitions.

Revenue bond balances have increased in excess of $150 million, and correlate to the funding for the MOL project, other capital projects, and land acquisitions.

Other noncurrent liabilities include MOL deferred revenue balances of approximately $100 million. The decline in other noncurrent liabilities from 2007 to 2008 was primarily due to a payoff of a $23 million line of credit (from 2007) in early 2008.

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.

Revenues, Expenses and Changes in Net Assets

| (In thousands of dollars) | 2008 | 2007 | 2006 |
|---|---|---|---|
| **CHANGES IN NET ASSETS** | | | |
| Operating revenue | $ 42,363 | $ 39,905 | $ 38,492 |
| Operating expenses | 47,099 | 40,927 | 43,839 |
| Operating loss | (4,736) | (1,022) | (5,347) |
| Non-operating revenue (expense) | (16,545) | (546) | (5,462) |
| Loss before capital contributions | (21,281) | (1,568) | (10,809) |
| Capital contributions | 29,676 | 4,587 | 538 |
| Changes in net assets | 8,395 | 3,019 | (10,271) |
| **NET ASSETS** | | | |
| Beginning of year | 287,543 | 284,524 | 294,795 |
| End of year | $ 295,938 | $ 287,543 | $ 284,524 |

Revenues, Expenses and Changes in Net Assets - 2008 vs. 2007

The Authority's operating revenue for 2008 was $42,363, an increase of $2,458, part of which is attributable to Ferry revenues of $1,124, a new revenue line item for 2008. Adjusted for Ferry, revenues were up comparatively $1,334, a 3.3% increase over prior year revenues of $39,905. Most notable increases were in Autos, up $1,943 (17%), and Containers, up $613 (4%). Cruise revenues were down $967, almost 40%, as the Authority had a five month mid-year pause while Carnival transitioned to a larger capacity vessel (the Fascination with a capacity of 2056 cruise customers), resuming full cruise operations September 20. Military revenues were $1,095, down $456 from

**FINANCIAL ANALYSIS OF THE AUTHORITY (cont.)**

Revenues, Expenses and Changes in Net Assets - 2008 vs. 2007 (cont.)

prior year, a line of business subject to fluctuation. Other revenue fluctuations were minor.

Operating expenses, including depreciation and amortization were $47,099, an increase of $6,172. Depreciation and Amortization increased $1,244 to $16,774, reflective of capital spending trends over the past several years. Operating expenses exclusive of depreciation were up $4,928. Increases of note were service and supplies, up $2,560 of which Ferry operations expenses were $1,610. Additionally, within the category of services and supplies, were increased fuel related expenses - up $417, legal service - up $419, and consultants - up $120. Other significant line item increases were in salaries and benefits – up $1,050 (8.4%), related to staffing, pay increases, and increased benefits costs. Also, Security services – up $582 (14.6%), relating to securing expanding terminal properties, dredging – up $328, and utility services – up $195 (22%) due to rising electric rates.

Non-operating revenue/(expenses) in 2008 were ($16,545), compared to ($546) in 2007, an increased net expense of $15,999. The Authority incurred a significant charge in 2008 of $14,489 pertaining to legal fees and other costs related to eminent domain proceedings. While electing not to acquire the subject eminent domain property due to purchase price considerations, the Authority is still liable for the land owner's legal costs. The $14,489 amount includes both the Authority's and land owner's estimated cost. These amounts have been fully accrued as a charge to fiscal year 2008 non-operations expense; the disbursements will occur subsequent to fiscal year 2008. See commitments and contingencies note for further information. Also recognized in fiscal year 2008, is an Insurance Claim of $5 million related to insured crane damages; related expenses to date total $3.8 million. The cranes are covered at replacement value; additional claim amounts are anticipated but not yet quantifiable as of the date of this report.

The remaining non-operating revenue/(expenses) related to increased interest expense of $1,243 ($5,961 in 2008 as compared to $4,718 in 2007), and a reduction in shared revenue from primary government of $1,162.

Capital contributions in 2008 were $29,676, an increase of $25,089 over 2007. Noteworthy capital grants related to both new construction (MOL infrastructure), as well as improvements at the existing Talleyrand terminal (Berth #3 reconstruction funding).

As a result of the above, the Authority recorded an increase in net assets during fiscal year 2008 of $8,395 as compared to a net increase of $3,019 in 2007.

Revenues, 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 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.

**FINANCIAL ANALYSIS OF THE AUTHORITY (cont.)**

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

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.

Cash Flows

2008 vs. 2007

Net cash provided by operating activities was $18,330 in 2008, as compared to $17,048 in 2007, a $1,282 increase. Cash receipts from customers increased $4,928 in 2008, primarily relating to MOL rent receipts collected for related debt service payments on the terminal project financing. The Authority collects periodic rent payments from MOL which are used to pay debt service obligations on the books of the Authority. MOL 2008 rent receipts were $8.5 million compared to $5 million in 2007. The remaining increase in receipts from customers was related to increased revenue in 2008. Payments to suppliers increased $2,646 pertaining to increased vendor payments, including $1,610 associated with Ferry operations, and the remainder for numerous vendors for security, legal, dredging, etc. Payments to employees increased $1,000, relating to additional payroll and benefit costs in 2008.

Net cash provided from non-capital related financing activities (all attributable to receipts from primary government) were $6,316 in 2008, as compared to $5,094 in the prior year. 2007 receipts of $5,094 were positively impacted by additional prior year catch up receipts totalling $1.5 million. 2008 was also positively impacted, as the annual receipts collection of $3.8 million (representing a one-year lag receipt) were combined with $2.5 million of receipts collected under the new Interlocal agreement which call for monthly receipts of these revenues, effective in 2008.

Net cash flows from capital and related financing activities were $26,485 in 2008, as compared to $46,779 in 2007. Both years include significant proceeds from debt proceeds, partly offset by major capital spending projects. The year to year changes are largely timing related; the Authority received $99,077 in conduit debt proceeds (MOL) in 2007, which were subsequently expended in 2007 and 2008 on the MOL capital project. Contributions in aid of construction were more significant in 2008 ($22,666 vs $3,924), concurrently used to fund increased capital spending.

Net cash flows from investing activities were a negative ($1,040) in 2008, as compared to a positive $1,008 in 2007. Interest income declined $548, while proceeds from sale of investment securities increased $1,384, the former relating to a decreased interest rate/yield environment, and later was a conversion of restricted investment to restricted cash driven by interest rate/yield also. The "other" category accounts for the legal costs associated with eminent domain proceedings, approximately $2.3 million expended in 2008.

Cash and Cash Equivalents at end of year 2008 were $133,384, an increase of $50,091. These funds are predominately associated with construction in progress, and funds associated with port expansion plans anticipated in fiscal year 2009.

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.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

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

2008 vs. 2007

The Authority had $575,705, net of accumulated depreciation, invested in capital assets as of September 30, 2008 compared to $422,532 as of September 30, 2007, a net increase of $153,173. Construction spending in 2008 for the MOL Terminal was approximately $130 million, and land acquisitions accounted for $13.5 million. Various other projects in the $1 million to $8 million range, make up the additional outlay. Depreciation of approximately $16.3 million was also recorded in fiscal year 2008, an increase of $1.2 million from 2007, reflecting increased capital spending trends in the past several years.

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.

### Long-Term Debt

2008 vs. 2007

As of September 30, 2008, the Authority had outstanding bonds payable of $282,185 as compared to $81,184 at September 30, 2007 (both net of unamortized bond discounts and deferred loss on refunding). Also, outstanding capital lease obligations were $6,242, and $7,169, respectively.

Noteworthy increases in 2008 include the following:

Revenue Bonds, Series 2008 in the amount of $90 million (designated for both MOL and other Capital projects). Also significant, Commercial Paper issued in the amount of $77 million, primarily for potential land purchases and port expansion projects. The Commercial Paper balance will be paid off in early fiscal year 2009 (approximately $53 million of related cash proceeds were unspent at year end 2008), as certain land acquisitions will not be pursued as planned. Lastly, additional advances on the existing Florida State Infrastructure Bank loan – 2007, increased to $45,100 outstanding from $11,450 at prior year end.

The Authority exceeded its required minimum debt service coverage ratio for the 2008 Fiscal Year.

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 coverage ratio for the 2007 Fiscal Year.

### 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, 2008 and 2007.

## 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.

| (In thousands of dollars) | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Unrestricted cash and cash equivalents | $ 11,731 | $ 5,382 |
| Due from primary government | 200 | 4,172 |
| Accounts receivable, net | 4,288 | 3,434 |
| Other receivables | 363 | 163 |
| Insurance claim receivable | 5,000 | --- |
| Grants receivable | 6,343 | $3,254 |
| Inventories and other assets | 1,482 | $1,497 |
| Restricted cash and cash equivalents | 67,344 | $8,883 |
| Restricted cash for capital projects | 53,088 | $65,239 |
| Other restricted assets | 807 | 837 |
| Total current assets | 150,646 | 92,861 |
| Noncurrent assets | | |
| Dredged soil replacement rights, net | 1,071 | 1,409 |
| Bond issuance costs, net | 5,379 | 1,053 |
| Restricted cash and cash equivalents | 1,222 | 3,789 |
| Restricted investments | 891 | 1,972 |
| Assets constructed for other government agencies | 2,924 | --- |
| Capital assets, net | 575,705 | 422,532 |
| Total noncurrent assets | 587,192 | 430,755 |
| Total assets | 737,838 | 523,616 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | 16,459 | 2,225 |
| Accrued expenses | 1,120 | 1,031 |
| Capital lease obligations | 964 | 927 |
| Accrued interest | 6,386 | 2,047 |
| Deferred revenue | 5,061 | 2,638 |
| Construction contracts payable | 16,590 | 15,272 |
| Retainage payable | 5,638 | 2,308 |
| Other current liabilities | 885 | 938 |
| Current liabilities payable from restricted assets - bonds and notes payable | 83,452 | 7,655 |
| Total current liabilities | 136,554 | 35,041 |
| Noncurrent liabilities | | |
| Deferred revenue | 100,211 | 96,808 |
| Insurance reserve | 200 | 200 |
| Accrued expenses | 924 | 796 |
| Line of credit | --- | 23,457 |
| Bonds and notes payable, net of original issue discount and deferred loss on refunding | 198,732 | 73,529 |
| Capital lease obligations | 5,279 | 6,242 |
| Total noncurrent liabilities | 305,345 | 201,032 |
| Total liabilities | 441,900 | 236,073 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 271,042 | 259,987 |
| Restricted for | | |
| Debt service | 10,011 | 12,260 |
| Other | 3,147 | 378 |
| Unrestricted | 11,738 | 14,918 |
| Total net assets | $ 295,938 | $ 287,543 |

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

| | 2008 | 2007 |
|---|---|---|
| *(In thousands of dollars)* | | |
| **OPERATING REVENUE** | $ 42,363 | $ 39,905 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 13,559 | 12,509 |
| Services and supplies | 6,378 | 3,818 |
| Security services | 4,561 | 3,979 |
| Business travel and training | 460 | 270 |
| Promotions, advertising, dues and membership | 909 | 939 |
| Utility services | 1,067 | 872 |
| Repairs and maintenance | 1,994 | 2,264 |
| Dredging | 1,101 | 773 |
| Bad debt expense (recovery) | 50 | (95) |
| Miscellaneous | 246 | 68 |
| Total operating expenses | 30,325 | 25,397 |
| Operating income before depreciation and amortization | 12,038 | 14,508 |
| **DEPRECIATION AND AMORTIZATION EXPENSE** | 16,774 | 15,530 |
| Operating loss | (4,736) | (1,022) |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Interest expense | (5,961) | (4,718) |
| Investment income and other | 379 | 881 |
| Shared revenue from primary government | 2,344 | 3,506 |
| Asset impairment loss | (3,818) | |
| Insurance claim for asset impairment loss | 5,000 | |
| Legal and other costs - Eminent domain | (14,489) | (215) |
| Total non-operating revenue (expense) | (16,545) | (546) |
| Loss before capital contributions | (21,281) | (1,568) |
| **CAPITAL CONTRIBUTIONS** | 29,676 | 4,587 |
| Change in net assets | 8,395 | 3,019 |
| **NET ASSETS** | | |
| Beginning of year | 287,543 | 284,524 |
| End of year | $ 295,938 | $287,543 |

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


Fascination
Carnival
FASCINATION

| (In thousands of dollars) | 2008 | 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 47,633 | $ 42,705 |
| Payments for services and supplies | (15,922) | (13,276) |
| Payments to/for employees | (13,381) | (12,381) |
| Net cash provided by operating activities | 18,330 | 17,048 |
| **CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES** | | |
| Receipts from primary government | 6,316 | 5,094 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from capital debt | 203,860 | 11,450 |
| Line of credit activity | (23,457) | 9,458 |
| Proceeds from conduit debt | - | 99,077 |
| Contributions-in-aid of construction | 22,666 | 3,924 |
| Repayment of customer advances | - | (5,500) |
| Acquisition and construction of capital assets | (162,541) | (63,739) |
| Principal paid on capital debt | (8,582) | (3,447) |
| Interest paid on capital debt | (5,466) | (4,458) |
| Proceeds from sale of assets | 5 | 14 |
| Net cash provided by (used in) capital and related financing activities | 26,485 | 46,779 |
| **CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES** | | |
| Interest on investments | 340 | 888 |
| Purchase of investment securities | (855) | (2,786) |
| Proceeds from sale and maturities of investment securities | 1,958 | 2,505 |
| Other | (2,483) | 401 |
| Net cash provided by (used in) investing activities | (1,040) | 1,008 |
| Net increase (decrease) in cash and cash equivalents | 50,091 | 69,929 |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning of year | 83,293 | 13,364 |
| End of year | $ 133,384 | $ 83,293 |
| **RECONCILIATION OF OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating income before depreciation and amortization | $ 12,038 | $ 14,508 |
| Adjustment to reconcile operating income before depreciation and amortization to net cash provided by operating activities | | |
| Provision (benefit) for uncollectible accounts | 50 | (95) |
| Changes in assets and liabilities: | | |
| Account receivable and other current assets | (1,742) | 535 |
| Accounts payable, accrued expenses and other current liabilities | 2,140 | (508) |
| Deferred revenue | 5,844 | 2,608 |
| Net cash provided by operating activities | $ 18,330 | $ 17,048 |

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 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.

## Note A – Summary of Significant Accounting Policies (continued)

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, 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 of three years or greater.

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

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

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

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

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

## Note A – Summary of Significant Accounting Policies (continued)

10. Dredged soil replacement rights (cont.)

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 2008 and 2007 was $1,219,000 and $1,146,000, 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 communications service 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. The Interlocal Agreement was amended on December 12, 2007 to allow the Authority to use future excess funds for general business purposes, including debt service payments. It also concurrently modified payment of pledged revenues to be applied on a monthly basis, no later that the last business day of each month following the month in which the city receives the pledged revenues. The Authority's share of the communications service tax was $2,344,000 and $3,500,000 in 2008 and 2007, 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 2007 financial statement presentation in order to conform to the 2008 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

Note B – Cash and Investments (cont.)

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, 2008, was A1+ for the Federal Home Loan Bank (FHLB) holdings.

The composition of securities held by the Authority as of September 30, 2008 poses *Concentration Risk* as the investment exceeds 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, 2007 | Purchases | Sales | Change in Fair Value | Fair Value at September 30, 2008 | Cost September 30, 2008 |
|---|---|---|---|---|---|---|
| FHLB | $ 0 | $854 | $ 0 | $37 | $891 | $854 |
| FHLMC | 1,120 | - | (1,111) | (9) | - | - |
| Commercial Paper | 852 | | (847) | (5) | - | - |
| | $1,972 | $854 | $(1,958) | $23 | $891 | $854 |

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

| Security Type: | Fair Value at September 30, 2007 | Cost September 30, 2008 | Maturity Date | Yield |
|---|---|---|---|---|
| FHLB | $891 | $854 | Oct-08 | 4.12% |

## Note C - Capital Assets

Capital asset activity for the years ended September 30, 2008 and 2007 was as follows:

| 2008 (in thousands) | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land and improvements | $ 106,138 | $ 21,447 | $ - | $127,585 |
| Construction in progress | 102,211 | 172,612 | (32,492) | 242,331 |
| Total capital assets not being depreciated | 208,349 | 194,059 | (32,492) | 369,916 |
| Other capital assets | | | | |
| Buildings | 69,898 | - | - | 69,898 |
| Improvements | 251,287 | 5,238 | (1,703) | 254,822 |
| Equipment | 75,276 | 5,576 | (14,488) | 66,364 |
| Equipment under capital leases | 22,242 | - | - | 22,242 |
| Total other capital assets at historical cost | 418,703 | 10,814 | (16,191) | 413,326 |
| Less accumulated depreciation for: | | | | |
| Buildings | 28,324 | 2,507 | (706) | 30,125 |
| Improvements | 123,161 | 9,110 | (1,702) | 130,569 |
| Equipment | 48,102 | 2,080 | (10,879 | 39,303 |
| Equipment under capital leases | 4,933 | 2,607 | - | 7,540 |
| Total accumulated depreciation | 204,520 | 16,304 | (13,287) | 207,537 |
| Other capital assets, net | 214,183 | (5,490) | (2,904) | 205,789 |
| Capital assets, net | $ 422,532 | $188,569 | $ (35,396) | $575,705 |

| 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 | (1263) | 251,287 |
| Equipment | 77,888 | 2,247 | (4859) | 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 |


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## 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.

The following schedule summarizes capitalization of interest for the Authority for the fiscal years ended September 30, 2008 and 2007:

| *(In thousands of dollars)* | 2008 | 2007 |
|---|---|---|
| Total interest expense incurred | $ 8,278 | $ 3,917 |
| Interest expense associated with construction | 4,700 | 714 |
| Interest earned in construction accounts capitalized | (2,383) | (1,515) |
| Net interest capitalized | 2,317 | (801) |
| Net interest expense incurred | $ 5,961 | $ 4,718 |

## 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, 2008, are as follows:

| *(Amounts in thousands)* | MOL | All Other | Total |
|---|---|---|---|
| 2009 | $ 5,061 | $ 10,809 | $ 15,870 |
| 2010 | 5,896 | 8,130 | 14,026 |
| 2011 | 5,897 | 6,582 | 12,479 |
| 2012 | 5,896 | 6,437 | 12,333 |
| 2013 | 5,897 | 6,143 | 12,040 |
| Thereafter | 147,416 | 50,941 | 198,357 |
| | $ 176,063 | $ 89,042 | $ 265,105 |

## 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) agreed 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 in early 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 2039), 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, 2008, project capital spending to date was approximately $190 million.

Financing

Cost of the project is estimated to be $235 million. The lease 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 remaining $15 million represents additional change orders requested and paid for by MOL for additional acreage and paving. 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. As of September 30, 2008, the outstanding balance of this conduit debt was $100,000,000; initial principal payments are scheduled to begin in November 2008.

- An FDOT Florida State Infrastructure Bank Loan (SIB) of $50 million issued in 2007, and Port Authority Bonds for the remaining $45 million. The latter $45 million is included within the 2008 bond issue for $90 million, Revenue Bonds, Series 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.

## Note F - Lessor Obligations to Mitsui O.S.K. Lines, Ltd. (MOL) (cont.)

Financing (cont.)

The Authority's $25 million contribution is a combination of State grant funds of $17 million, with remaining balances funded from Authority Revenue Bonds, Series 2008.

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 lease term will begin in early 2009, concurrently with the scheduled opening of the terminal. Revenues will be recognized as earned income over the 30-year lease term through 2038. Deferred revenue amounts at September 30, 2008 totaled approximately $105 million.

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 Division of Retirement, P.O. 9000, Tallahassee, Florida 32315 -9000, attention Research and Education, or by calling (850) 488-5706.

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

Eight 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 2008 fiscal Authority contribution amount was 10.96 percent. The employee contribution has remained constant at 8.0 percent.

The total contribution requirement for both plans in the accompanying financial statements was $1,091,000, $906,000, and $688,000 for the years ended September 30, 2008, 2007, and 2006, respectively.


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## 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 $3,113,000 and $3,163,000 as of September 30, 2008 and 2007, 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 $807,000 and $837,000 as of September 30, 2008 and 2007, respectively. The Authority's 401(a) matching contributions were $136,000, $129,000, and $121,000 for the years ended September 30, 2008, 2007, and 2006, respectively.

## Note I – Other Post Employment Benefits (GASB 45)

Plan Description

The Authority maintains a medical benefits plan that it makes available both to current and retired employees. Retiree employees have a one time benefit option to continue coverage under the group plan upon retirement. Retirees pay the full insurance premium with no direct subsidy from the Authority. The medical plan is an experience rated insurance contract plan that provides medical benefits to employees and eligible retirees and their dependents. The post-retirement benefit portion of the benefits (referred to as OPEB) refers to the benefits applicable to current and future retirees based upon Government Accounting Standard 45 (GASB 45).

Implementation of GASB 45

The Authority implemented GASB 45 effective in 2008. As of the 2008 valuation date, the Plan had approximately 118 active participants and 8 retirees receiving benefits.

The Authority had previously followed a pay-as-go policy for these benefits. However, under GASB 45, an implicit rate subsidy (an age adjusted premium benefit) is now recognized and reflects current year net obligations as a recorded liability. Additionally, certain pertinent disclosures regarding the actuarial accrual liability are also provided below:

OPEB / GASB 45 Funding Status

The following data presents the GASB45 funding status as of September 30, 2008:

| | | |
|---|---|---|
| 1. Actuarial Accrued Liability | (AAL) | $1,279,807 |
| 2. Actuarial Value of Assets | | 0 |
| 3. Unfunded (UAAL) | | 1,279,807 |
| 4. Funded Ratio | | 0% |
| 5. Annual Covered Payroll | | $4,720,000 |
| 6. UAAL as a percentage of Payroll | | 27.11% |

The following criteria were used: 4% discount rate, standardized mortality tables, average employee earnings of $40,000, and medical industry based cost trend assumptions.

Annual OPEB / GASB45 Cost and Net OPEB Obligation

| | |
|---|---|
| Annual Required Retiree Cost (2008) | $121,075 |
| Interest on Plan Obligation | 0 |
| Contributions Made (estimated premium paid by Authority) | 41,040 |
| Change in Plan Obligation | 80,035 |
| Plan Obligation Beginning of Year | 0 |
| Plan Obligation End of Year | $ 80,035 |

## Note J – 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

## Note J – Risk Management (cont.)

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 $126,000, $169,000, and $242,000 for the years ended September 30, 2008, 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 $301,000, $410,000, and $305,000 for the years ended September 30, 2008, 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 K – Long-Term Debt, Capital Leases And Other Noncurrent Liabilities

Noncurrent liability activity for the years ended September 30, 2008 and 2007 was as follows:

| 2008 | | | | | |
|---|---|---|---|---|---|
| *(In thousands of dollars)* | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
| Bonds payable, notes payable and capital leases: | | | | | |
| Revenue bonds | $19,275 | $90,000 | $ (1,145) | $108,130 | $1,190 |
| Revenue refunding bonds | 54,905 | - | (1,610) | 53,295 | 1,715 |
| Capital leases | 7,169 | | (927) | 6,242 | 964 |
| Commercial Paper | - | 77,000 | - | 77,000 | 77,000 |
| State Infrastructure Bank Loan | 11,450 | 38,550 | (4,900) | 45,100 | 3,547 |
| | 92,799 | 205,550 | (8,582) | 289,767 | 84,416 |
| Less original issue discounts and deferred loss on refunding | (4,446) | -38 | 3,144 | (1,340) | - |
| Total bonds payable, notes payable, and capital leases | 88,353 | 205,512 | (5,438) | 288,427 | 84,416 |
| Other non-current liabilities: | | | | | |
| Deferred Revenue | 99,446 | 8,464 | (2,638) | 105,272 | 5,061 |
| Insurance Reserve | 200 | - | - | 200 | - |
| Compensated absences & other | 1,146 | 503 | (350) | 1,299 | 375 |
| Line of Credit | 23,457 | - | (23,457) | - | - |
| Total Noncurrent liabilities | $212,602 | $214,479 | $(31,883) | $395,197 | $ 89,852 |


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## Note K – Long-Term Debt, Capital Leases And Other Noncurrent Liabilities (cont.)

| | 2008 | | | | |
|---|---|---|---|---|---|
| *(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) | (1,078) | 365 | (4,446) | - |
| Total bonds payable, notes payable, and capital leases | 80,633 | 10,802 | (3,082) | 88,353 | 8,582 |
| Other non-current liabilities: | | | | | |
| Deferred Revenue | 3,262 | 98,696 | (2,512) | 99,446 | 2,638 |
| Insurance Reserve | 200 | - | - | 200 | - |
| Compensated absences & other | 1,052 | 423 | (329) | 1,146 | 350 |
| Line of Credit | 14,017 | 9,440 | - | 23,457 | - |
| Total Noncurrent liabilities | $ 99,164 | $119,361 | $ (5,923) | $212,602 | $ 11,570 |

Long-term debt and capital leases at September 30, 2008 and 2007 consisted of the following:

| *(in thousands of dollars)* | 2008 | 2007 |
|---|---|---|
| Revenue Bonds, Series 2000, including serial bonds due in varying amounts through 2030. Interest rates range from 4.50% to 5.7%. | $ 18,130 | $ 19,275 |
| Revenue Refunding Bonds, Series 2006, due in varying amounts through 2018. Interest rates are at a fixed rate of 4.375% until November 1, 2009 (see below paragraph for further details for interest rate swap). | 53,295 | 54,905 |
| Florida State Infrastructure Bank loan - 2007, Subordinate Obligation due in varying amounts through 2018. Interest is at an annual rate of 3%. | 45,100 | 11,450 |
| Revenue Bonds, Series 2008, including serial bonds due in varying amounts through 2038. Interest rates range from 5.75% to 6.0%. | 90,000 | |
| Commercial Paper, Subordinate Obligation, due in varying amounts and interest rates. (rates ranged from .75% to 3.75% in 2008). | 77,000 | - |
| 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%. | 6,242 | 7,169 |
| | 289,767 | 92,799 |
| Less current portion | 84,416 | 8,582 |
| | $205,351 | $84,217 |

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.

Note K – Long-Term Debt, Capital Leases And Other Noncurrent Liabilities (cont.)

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.

In March 2008, the Authority converted the Series 2006 Bonds to a fixed rate of 4.375% until November 1, 2009. This conversion was done due to the instability of the Auction Rate bond market which was causing the bonds to be reset at higher than historical interest rates. On or before November 1, 2009, the Authority will remarket the Bonds at either a fixed rate or a variable rate mode. The mode and the terms will be determined by the stability of the market and what will be most advantageous to the Authority.

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.

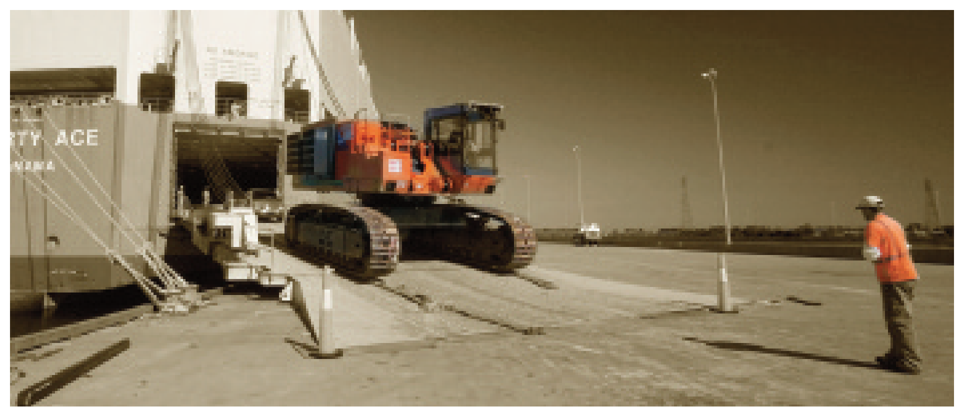
In March of 2007, the Authority executed a State Infrastructure Bank (SIB) Loan Agreement with the State of Florida Department of Transportation for a total loan amount of up to $50,000,000. The SIB loan is a component part of the MOL project funding; the designated source of repayments is MOL lease 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 as of September 30, 2008, and 2007 was $45,100,000, and $11,450,000, respectively.

In January 2008, the Authority entered into an $85 million Commercial Paper program. As of September 30, 2008, the Authority has drawn $77 million. The Commercial Paper is issued in various maturities ranging from 1 day to 270 days at variable rates. The proceeds of the Commercial Paper are being used for land acquisitions and capital improvements. See subsequent events notes for further information regarding the non-renewal of the Commercial Paper program, effective January 2009.

1. Debt maturities

Required debt service for the outstanding revenue bonds for the next five years and thereafter to maturity as of September 30, 2008 was as follows:

| *(In thousands of dollars)* | Interest | Principal |
|---|---|---|
| Years ending | | |
| 2009 | $ 12,724 | $ 83,452 |
| 2010 | 12,301 | 7,613 |
| 2011 | 11,801 | 7,943 |
| 2012 | 11,276 | 8,301 |
| 2013 | 10,723 | 8,672 |
| Thereafter | 126,699 | 167,544 |
| | $ 185,524 | $ 283,525 |



## Note K – Long-Term Debt, Capital Leases And Other Noncurrent Liabilities (cont.)

The following is a schedule of future minimum lease payments under capital leases as of September 30, 2008:

| *(In thousands of dollars)* Years ending | |
|---|---|
| 2009 | $ 1,197 |
| 2010 | 1,197 |
| 2011 | 1,197 |
| 2012 | 1,196 |
| 2013 | 1,196 |
| 2014 | 1,060 |
| Total minimum lease payments | 7,043 |
| Less: Amount representing interest | 801 |
| Present value of minimum lease payments | $ 6,242 |

The equipment held under capital leases is included in the capital assets disclosure.

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, 2008 and 2007 were as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| *(In thousands of dollars)* | Principal Balance | Investment Balance With Escrow Agent | Principal Balance | Investment Balance With Escrow Agent |
| Revenue Bonds, Series 2000 | $12,645 | $13,162 | $13,440 | $14,390 |

3. Original Issue Discount, Premiums, and Deferred Loss on Refundings

Unamortized issue discount on Bonds and Notes Payable were $477 and $509 in 2008 and 2007, respectively. Unamortized premiums on Bonds were (2,728) and $0, in 2008 and 2007, respectively. Unamortized deferred loss on refundings was $3,591 and $3,937 in 2008 and 2007, respectively.

Other Noncurrent Liabilities

Deferred revenue balances were $100,211 and $96,808 for years ending September 30, 2008 and 2007, respectively. These amounts represent MOL rent receipts collected but unearned. See note F for further explanation regarding revenue recognition.

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 – Interest Rate Swap Agreement

In conjunction with the issuance of Revenue Refunding Bonds, Series 2006, variable rate bonds, the Authority entered into an Interest Rate Swap Agreement (“Swap”) through November 1, 2018, synthetically fixing the interest rate at 5.215%.

The debt obligation exposes the Authority to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of its interest payments. To meet this objective, management entered into the Swap to manage fluctuations in cash flows resulting from interest rate risk. The Swap has changed the variable-rate cash flows exposure on the debt obligations to fixed-cash flows. Under the terms of the interest rate swap, the Authority receives variable interest rate payments based on 67% of the London Interbank Offered Rate (LIBOR) and makes fixed interest payments; thereby creating the equivalent of fixed-rate debt.

By using a derivative financial instrument to hedge its exposure to changes in interest rates, the Authority exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Authority, which creates credit risk for the Authority. When the fair value of a derivative contract is negative, the Authority owes the counterparty, and therefore it does not possess credit risk. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the

## Note L – Interest Rate Swap Agreement (cont.)

value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing the monitoring parameters that limit the types and degree of market risk that may be undertaken.

The contract/notional amount and estimated fair value of the Authority's derivative financial instruments at September 30, were as follows:

| 2008 | | 2007 | |
|---|---|---|---|
| Contract/Notional Amount | Fair Value | Contract/Notional Amount | Fair Value |
| $ 53,295,000 | $ (4,996,000) | $ 54,905,000 | $ (3,870,000) |

Changes in the fair market value of the Swap are not reported in the accompanying financial statements since the Authority is not required to record the asset or liability in accordance with Financial Accounting Standards Board Statement No. 133.

Effective September 30, 2010, the Authority will be required to record the asset or liability under GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments for the above referenced contract.

As discussed in Note K, the Series 2006 Bonds were converted to a fixed interest rate. As a result, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest payments made on the bonds and the variable payments received on the swap (67 percent of LIBOR).

## Note M – Commitments And Contingencies

Construction related

At September 30, 2008, the Authority had commitments for future construction work of approximately $59 million. The major project commitment related to the MOL container terminal project, approximately $45 million.

In connection with the MOL terminal project, the Authority has expended to date approximately $2.9 million for peripheral highway improvements on behalf of the Florida Department of Transportation (FDOT). The total costs of the project will be approximately $13.4 million and will be transferred to the FDOT upon completion of the project in 2009. This asset is accounted for as assets constructed on behalf of other government agencies, and is not part of the capital assets of the Authority. Grant funding commitments for the project from the FDOT is currently $10.6 million.

Insurance Claim (Cranes)

In August of 2008, a total of five cranes were damaged as a result of a wind microburst at the Blount Island terminal. The damages were confined primarily to equipment (five cranes). Two cranes were destroyed in total; three cranes incurred minor damages and have subsequently been repaired. The cranes are insured at replacement value.

As of year end 2008, the Authority has recorded an asset impairment loss for approximately $3.8 million. The Authority has been working with its insurance carrier throughout the process and received insurance proceeds of $5 million in October 2008, which was recorded as an Insurance Claim receivable at year end.

There are a variety of options that the Authority is considering for replacing the destroyed cranes and the estimated delivery for the new equipment will range from 12-18 months. As of the financial statement date, no formal determination or contract has been entered into which would serve to estimate the proceeds resulting from this claim. Because of the dollar magnitude and relatively recent timing of this event, complete information was unavailable to record the potential full insurance recovery.

Eminent Domain Proceedings

Dating back to 2006, the Authority capitalized legal and other costs associated with Eminent Domain proceedings with the expectation that said properties would be acquired. In June 2008, a court ruling was rendered resulting in a valuation for said properties which the Authority deemed unacceptable. The Authority had the option not to acquire the property if the valuation was unfavorable. Capitalized costs associated with these proceedings by the Authority totaled approximately $2.7 million and were charged off in fiscal year 2008 as result of this determination not to proceed.

Additionally, as a result of the Eminent Domain ruling and the Authority's decision not to proceed, the Authority is liable for certain legal and other costs incurred by the land owner. These amounts total $11.8 million ($1.3 million for expert witness costs and an estimated judgment of $10.5 million for legal costs – both based upon determination by the courts in December of 2008). The total of both the Authority's costs and land owner's cost result in a $14.5 million non-operating charge in fiscal year 2008. The land owner's legal costs have been fully accrued for in fiscal year 2008, based upon a determination by the courts. The land owner's legal costs will be settled and paid subsequent to fiscal year 2008; these amounts are subject to appeal by the Authority.

FBI Investigation

In April 2008, the Federal Bureau of Investigation (FBI) initiated an investigation of a board member, three employees, and certain companies which had performed services for the Authority. The Authority has complied with the FBI records request. This investigation is still in progress as of the date of this report.

Environmental Considerations

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.

Collective Bargaining Agreement

The Authority's workforce is made up of approximately 150 employees. Union employees represent about 46% of the total. The current union contract was renewed in 2007 for a three-year term, expiring on September 30, 2009.

Grant Program Compliance Requirements

The Authority participates in federal and state assisted grant programs that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal and state regulations. Any disallowance resulting from a regulatory audit may become a liability to the Authority. Assessments from such audits, if any, are recorded when the amounts of such assessments become reasonably determinable.

## Note N – *Capital Contributions*

1. City of Jacksonville Excise Tax Revenue Bonds

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

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

The Authority is not required to pay the City any amount for debt service on the 1993, 2001 or 2003 Bonds. The City retains the Authority's allocation and the $800,000 annual appropriation to the Authority, which is used by the City for debt service on the 1993, 2001 and 2003 Bonds. On a monthly basis, the Authority receives from the City excess funds from the communications service, as agreed upon by all parties, for the Authority's capital uses. These excess funds are accounted for as non-operating revenue.

2. Federal contributions

In 2008, The Authority received no new additional Federal funding awards. Amounts received prior to 2008, $4,457,000 from ODP, and $4,727,000 from the Transportation Safety Administration, $1,441,770 from the FEMA/Office of Domestic Preparedness, and $640,048 from the USDOT. 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 2008, the Authority received $268,000 from US HUD for property development. Total available Federal Grants received through September 30, 2008, as itemized above, are $11,533,818.

Approximately $2,823,421 and $1,361,000 were recognized as contributions in the Statements of Revenue, Expenses and Changes in Net Assets for the years ended September 30, 2008 and 2007, respectively. As of September 30, 2008, the Authority had drawn approximately $7,616,000 of eligible expenditures. The Authority has an available balance of $3,918,000 as of September 30, 2008.

2. Other capital contributions

The Authority has received additional capital funding from other State grants. Approximately $20,088,236 and $3,355,918 were recognized as contributions in the Statements of Revenue, Expenses and Changes in Net Assets for the years ended September 30, 2008 and 2007, respectively. As of September 30, 2008, the Authority had drawn approximately $21,955,391 of eligible expenditures. The Authority has an available balance of $23,347,806 as of September 30, 2008.

## Note O – Subsequent Events

1. Hanjin Shipping Co. Ltd.

On December 10, 2008, the Authority executed a 30 year lease agreement for a container terminal operation with a South Korean company, Hanjin Shipping. The $178 million, 88 acre terminal facility is slated to begin operations in 2011. At full capacity, the new terminal would have the capacity to handle nearly one million TEU (twenty foot) containers annually.

2. Line of credit

As a result of the turmoil in the financial markets, on January 15, 2009, JP Morgan Chase elected not to renew the letter of credit agreement provided for the Authority's commercial paper program. The Authority is in the process of engaging a substitute bank to provide LOC services for its commercial paper program or in lieu of LOC services, a bank to provide a line of credit.

## JAXPORT 2008 Board of Directors

JAXPORT is governed by a seven-member Board of Directors. The Mayor of Jacksonville appoints four members, and the Governor of Florida appoints three members.

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