

CANAVERAL PORT AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED

SEPTEMBER 30, 2008 AND 2007

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CANAVERAL PORT AUTHORITY

Years Ended September 30, 2008 and 2007

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CANAVERAL PORT AUTHORITY

Public Officials

At September 30, 2008

Joe D. Matheny
Chairman

Tom Goodson
Vice Chairman

Ralph J. Kennedy
Secretary-Treasurer

Raymond P. Sharkey
Commissioner

Charles D. Ragland
Commissioner

J. Stanley Payne
Chief Executive Officer

Harold Bistline
Port Attorney

Jon O. Brazee, P.E.
Chief Engineer/Deputy Executive Director

Robert Giangrisostomi
Business Development/Deputy Executive Director

Margaret T. Starkey
Chief Financial Officer/Deputy Executive Director

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Independent Auditors' Report

The Board of Commissioners
Canaveral Port Authority

We have audited the accompanying basic financial statements of the Canaveral Port Authority as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Canaveral Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Canaveral Port Authority as of September 30, 2008 and 2007, and the changes in its financial position, and its 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 our report dated February 9, 2009, on our consideration of the Canaveral Port 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages ix through xv 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



The Board of Commissioners
Canaveral Port Authority
Page Two

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Canaveral Port Authority's basic financial statements. The financial information listed as supplementary information on pages 32 through 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information related to the 2008, 2007, 2006, 2005, and 2004 financial statements 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.

The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General, and is also not a required part of the basic financial statements of the Canaveral Port Authority. Such information has been subjected to the auditing procedures applied in the audit of the basis financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Hoyman Dobson
Melbourne, Florida
February 9, 2009

Management's Discussion and Analysis

As management of the Canaveral Port Authority, we offer readers of the Canaveral Port Authority's financial statements this narrative overview and analysis of the financial activities of the Canaveral Port Authority for the fiscal years ended September 30, 2008 and 2007. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

Financial Highlights

- The assets of the Canaveral Port Authority exceeded its liabilities at the close of the most recent fiscal year by \$195,027 (*net assets*). Of this amount, \$38,525 (*unrestricted net assets*) may be used to meet the Authority's ongoing obligations to creditors.
- The Authority's total net assets increased by \$2,986. This increase consists of \$1,706 of income before capital contributions, and \$1,280 of capital contributions.
- At the end of the current fiscal year, unrestricted net assets were 84 percent of total expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Canaveral Port Authority's basic financial statements. The Canaveral Port Authority's basic financial statements are comprised of two components: fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The statement of net assets presents information on all of the Canaveral Port Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Canaveral Port Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The basic enterprise fund financial statements can be found on pages 2-6 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 7-30 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 32-49 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. Assets exceeded liabilities as of September 30, 2008 and 2007 by \$195,027 and \$192,041, respectively.

The following table reflects the condensed statement of net assets:

Canaveral Port Authority's Net Assets (in thousands)

| | 2008 | 2007 | 2006 |
|--|-------------------|-------------------|-------------------|
| Current and other assets | \$ 83,163 | \$ 44,289 | \$ 45,670 |
| Capital assets | 207,118 | 215,426 | 205,270 |
| Total assets | <u>290,281</u> | <u>259,715</u> | <u>250,940</u> |
| Current liabilities | 9,803 | 9,775 | 10,869 |
| Noncurrent liabilities | 85,451 | 57,899 | 60,471 |
| Total liabilities | <u>95,254</u> | <u>67,674</u> | <u>71,340</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 150,486 | * 155,303 | * 142,849 |
| Restricted | 6,016 | 6,016 | 6,016 |
| Unrestricted | 38,525 | 30,722 | 30,735 |
| Total net assets | <u>\$ 195,027</u> | <u>\$ 192,041</u> | <u>\$ 179,600</u> |

* The 2007 and 2006 invested in capital assets, net of related debt balances have been reclassified to conform to the current year presentation, and now exclude unamortized bond issuance costs of \$1,108 and \$1,215, respectively.

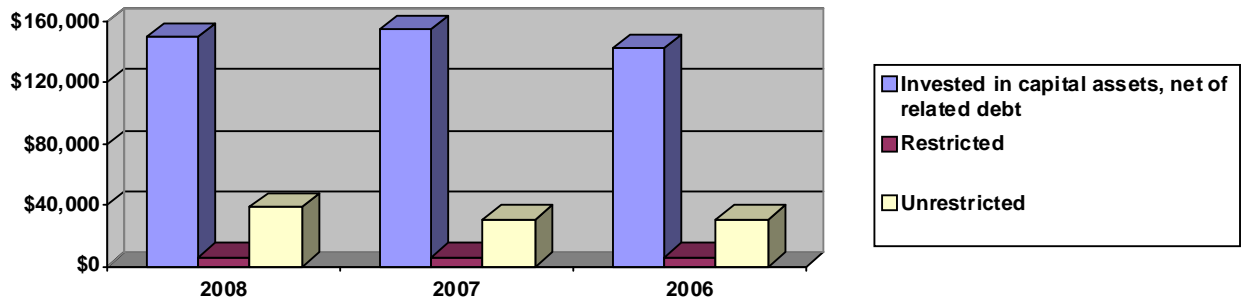
By far the largest portion of the Canaveral Port Authority's net assets as of September 30, 2008 and 2007 (77.16 percent and 80.87 percent, respectively) reflects its investment in capital assets (e.g., land, buildings, improvements, equipment, and construction in progress); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the Canaveral Port Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, a portion of the Canaveral Port Authority's net assets as of September 30, 2008 and 2007 (3.08 percent and 3.13 percent, respectively) represents the reserve for maximum debt service restricted in accordance with existing bond covenants. The remaining balance of unrestricted net assets may be used to meet the Authority's ongoing obligations to creditors.

At the end of the current fiscal year, the Canaveral Port Authority added \$7,803 to unrestricted net assets. In the prior year, unrestricted net assets were reduced by \$13.

The Authority's total net assets increased by \$2,986 during the current fiscal year. Of this amount, \$1,706 represents net income before capital contributions. The remaining \$1,280 represents capital contributions from federal and state sources. There is no assurance that these capital contributions from other sources will continue in the future.

Net Assets



The following table shows condensed revenue and expense data:

Canaveral Port Authority's Changes in Net Assets (in thousands)

| | 2008 | 2007 | 2006 |
|---------------------------------------|------------|------------|------------|
| Operating revenues: | | | |
| Fees and charges for services | \$ 46,107 | \$ 47,572 | \$ 49,451 |
| Non-operating revenues: | | | |
| Interest | 957 | 1,961 | 1,634 |
| Other | 422 | 62 | 83 |
| Total non-operating revenues | 1,379 | 2,023 | 1,717 |
| Total revenues | 47,486 | 49,595 | 51,168 |
| Operating expenses: | | | |
| Operations, maintenance and security | 17,371 | 15,869 | 14,917 |
| Executive, finance and administration | 5,402 | 5,585 | 3,735 |
| Engineering and environmental | 2,352 | 1,362 | 1,155 |
| Other | 3,384 | 2,979 | 3,404 |
| Depreciation and amortization | 13,513 | 9,910 | 9,426 |
| Total operating expenses | 42,022 | 35,705 | 32,637 |
| Non-operating expenses | | | |
| Interest | 2,460 | 2,510 | 2,678 |
| Other | 1,298 | 548 | 823 |
| Total non-operating expenses | 3,758 | 3,058 | 3,501 |
| Total expenses | 45,780 | 38,763 | 36,138 |
| Income before contributions | 1,706 | 10,832 | 15,030 |
| Capital contributions | 1,280 | 1,609 | 2,691 |
| Change in net assets | 2,986 | 12,441 | 17,721 |
| Net assets – beginning | 192,041 | 179,600 | 161,879 |
| Net assets – ending | \$ 195,027 | \$ 192,041 | \$ 179,600 |

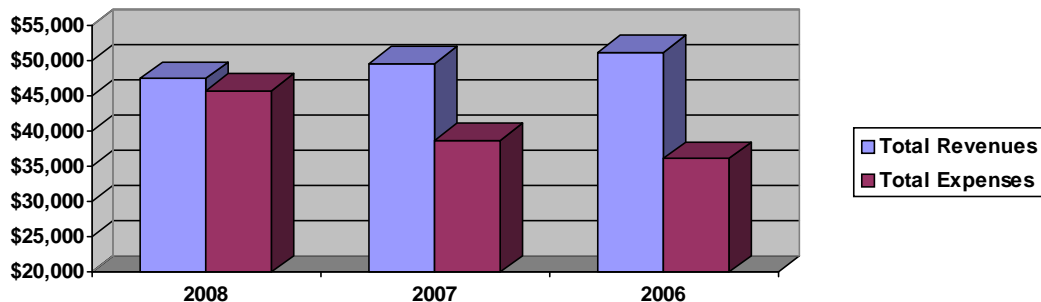
Key elements of the increase in net assets for the fiscal year ended September 30, 2008 are as follows.

- Fees and charges for services decreased by 3.08 percent. This is due primarily to the decrease in cargo activity during the fiscal year.
- Other nonoperating revenues increased as a result of the Authority receiving operating grants in the amount of \$384; \$61 from state sources, and \$323 from FEMA for tropical storm damage reimbursement.
- Investment earnings decreased \$1,004 due to dramatic market conditions, despite the increase in cash and cash equivalents.
- Capital contributions decreased during the current fiscal year by \$329, but continued to be a revenue source for the Authority, contributing \$1,280 to the change in net assets.

Key elements of the increase in net assets for the fiscal year ended September 30, 2007 are as follows.

- Fees and charges for services decreased by 3.80 percent. This is due primarily to the decrease in cargo activity for the fiscal year.
- Other nonoperating revenues increased as a result of the Authority received operating grants in the amount of \$62; \$36 from various state and federal sources, and \$26 from FEMA for hurricane damage reimbursement.
- Investment earnings increased by \$327 due to higher interest earnings and the continued increase in cash and cash equivalents.
- Capital contributions decreased during the current fiscal year by \$1,082 but continued to be a revenue source for the Authority, contributing \$1,609 to the change in net assets.

Total Revenues and Expenses



Capital Asset and Debt Administration

Capital assets. The Canaveral Port Authority's capital assets as of September 30, 2008 and 2007 amount to \$207,118 and \$215,426, respectively, (net of accumulated depreciation). These balances include land, buildings, improvements, equipment, and construction in progress. The total decrease in the Canaveral Port Authority's capital assets for the current fiscal year was 3.86 percent. The increase for fiscal year 2007 was 4.95 percent.

Major capital asset events during the current fiscal year included the following:

- Construction began or continued on several projects for the Authority, including, Improvements to both land and waterside for Cruise Terminal #8 and Cruise Terminal #10, Cruise Terminal #10 X-Ray Area Upgrades, Cruise Terminal #5 Upgrades, and Cove/Marina Stormwater Improvements. The cumulative total increase to Construction in Progress was \$10.5 million.
- Several major projects included in Construction in Progress were completed in 2008 including:
 - >South Piers Rebuild, widen and repair at a cost of \$12,477
 - >North Cargo Pier Repair at a cost of \$6,743
 - >South Cargo Pier Bulkhead Wall Replacement at a cost of \$3,313
 - >Cruise Terminal Generators for CT 5, 8 & 10 at a cost of \$1,439
 - >Cove/Marina Road and Utilities at a cost of \$1,158
 - >North Cargo Staging Area at a cost of \$1,806
 Additions for the year ended September 30, 2008 were offset by depreciation expense of \$12,437.
- Additionally, included in Construction in Progress was \$5,413 in costs for Maintenance Dredging and the South Jetty Deposition Basin, and New Computer System/Software at a cost of \$1,011. The projects were completed and are included in the increase in Intangible Assets. Amortization expense was \$1,076.
- The total Construction in Progress balance for 2008 and 2007 is \$12,636 and \$39,271 respectively.

Major capital asset events for fiscal year ended September 30, 2007 were as follows:

- Construction began or continued on several projects for the Authority, including North and South Cargo Piers Rebuild, Repair and Strengthening, which increased construction in progress \$6,396 over the prior year. Total construction in progress as of September 30, 2007 was \$39,271.
- Port Canaveral Headquarters was completed at a cost of \$6,355.
- Security upgrades and additions were completed at a cost of \$3,063.
- Cruise terminal restroom upgrades were completed at a cost of \$400.
- Facility improvements for the Authority were completed at a cost of \$990.
- Additions for the year ended September 30, 2007 were offset by depreciation expense of \$9,772.

**Canaveral Port Authority's Capital Assets
(net of depreciation)
(in thousands)**

| | 2008 | 2007 | 2006 |
|--------------------------------------|-------------------|-------------------|-------------------|
| Land | \$ 4,603 | \$ 4,603 | \$ 4,603 |
| Buildings | 15,025 | 15,285 | 5,361 |
| Improvements other than Buildings | 166,918 | 148,065 | 155,311 |
| Equipment | 7,826 | 8,062 | 7,371 |
| Equipment under capital Leases | 110 | 140 | 170 |
| Construction in progress | 12,636 | 39,271 | 32,454 |
| Total | <u>\$ 207,118</u> | <u>\$ 215,426</u> | <u>\$ 205,270</u> |

Additional information on the Canaveral Port Authority's capital assets can be found in note 3.D. on pages 15-16 of this report.

Long-term debt. At September 30, 2008 and 2007, the Canaveral Port Authority had total bonded debt outstanding of \$87,733 and \$59,100, respectively, net of unamortized deferred amounts. The Canaveral Port Authority's debt represents bonds secured solely by operating revenues (i.e., revenue bonds).

CANAVERAL PORT AUTHORITY'S Outstanding Debt
Revenue Bonds
(in thousands)

| | 2008 | 2007 | 2006 |
|---------------------------------------|------------------|------------------|------------------|
| Revenue Refunding Bonds, Series 1996B | \$ 710 | \$ 710 | \$ 710 |
| Revenue Refunding Bonds, Series 2002A | 14,135 | 17,410 | 20,605 |
| Revenue Bonds, Series 2002B | 8,650 | 8,650 | 8,650 |
| Revenue Refunding Bonds, Series 2005 | 16,005 | 16,135 | 16,260 |
| Revenue Refunding Bonds, Series 2006A | 16,565 | 16,735 | 16,900 |
| Revenue Bonds, Series 2006B | 1,330 | 1,330 | 1,330 |
| Revenue Bonds, Series 2008 | 32,000 | - | - |
| Less deferred amounts for discounts | (191) | (212) | (260) |
| Plus deferred amounts for premiums | 428 | 483 | 540 |
| Less deferred loss on refunding | (1,899) | (2,141) | (2,384) |
| Total revenue bonds | <u>\$ 87,733</u> | <u>\$ 59,100</u> | <u>\$ 62,351</u> |

The Canaveral Port Authority's total revenue bonds increased by \$28,633 (48.45 percent) during the current fiscal year and decreased by \$3,251 (5.21 percent) during the prior year. The key factor for the increase during the current fiscal year was the issuance of the Series 2008 Revenue Bonds in the amount of \$32,000.

The outstanding revenue bonds of the Canaveral Port Authority have been rated "AAA" by all three national rating agencies. The underlying rating assigned by all three national rating agencies are in the "A" category.

Additional information on the Canaveral Port Authority's long-term debt can be found in note 3.G. on pages 19-23 of this report.

Economic Factors and Next Year's Budgets and Rates

- Charges for services are budgeted to increase 2.92 percent for fiscal year ending September 30, 2009, while operating expenses are budgeted to decrease 3.20 percent, due to a number of factors including a \$750 decrease in budgeted insurance costs, a \$796 increase in operations and maintenance costs, and a projected \$697 decrease in engineering costs.
- The Authority has budgeted \$7.4 million for security costs for the 2009 budget year.
- Income before capital contributions, for the fiscal year ending September 30, 2009 is budgeted at \$5,083. This represents a 197.95 percent increase from the current year.

Requests for Information

This financial report is designed to provide a general overview of the Canaveral Port Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Canaveral Port Authority, P.O. Box 267, Cape Canaveral, Florida, 32920.

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BASIC FINANCIAL STATEMENTS

CANAVERAL PORT AUTHORITY

Statements of Net Assets

September 30, 2008 and 2007

ASSETS

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 28,797,548 | \$ 26,791,464 |
| Restricted cash and cash equivalents | 34,015,281 | 2,004,051 |
| Investments | 860,772 | - |
| Restricted investments | 276,628 | - |
| Accounts receivable - trade | 2,723,671 | 4,414,185 |
| Prepaid expenses | 1,660,220 | 1,720,436 |
| Due from other governmental units | 892,855 | 793,104 |
| Other receivables, current | 587,686 | 436,062 |
| Total current assets | <u>69,814,661</u> | <u>36,159,302</u> |
| Noncurrent assets | | |
| Restricted cash and cash equivalents | 6,016,423 | 6,016,423 |
| Intangible assets (net of accumulated amortization) | 5,616,441 | 268,312 |
| Unamortized bond issuance costs | 1,037,180 | 1,107,995 |
| Other receivables, long-term | 677,811 | 736,713 |
| Capital assets (net of accumulated depreciation): | | |
| Land | 4,602,954 | 4,602,954 |
| Buildings | 15,024,889 | 15,285,034 |
| Improvements other than buildings | 166,918,509 | 148,065,285 |
| Equipment | 7,826,154 | 8,062,558 |
| Equipment held under capital lease | 109,983 | 139,978 |
| Construction in progress | 12,635,874 | 39,270,685 |
| Total noncurrent assets | <u>220,466,218</u> | <u>223,555,937</u> |
| Total assets | <u>\$ 290,280,879</u> | <u>\$ 259,715,239</u> |

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

LIABILITIES

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 3,032,363 | \$ 4,355,429 |
| Unearned revenue | 485,725 | 437,571 |
| Payroll and sales taxes payable | 88,190 | 74,066 |
| Revenue bonds payable, current portion | 3,358,334 | 2,383,333 |
| Note payable, current portion | 80,716 | 76,027 |
| Capital lease obligation, current portion | - | 35,649 |
| Compensated absences, current portion | 1,861 | 14,062 |
| Other liabilities, current portion | 372,867 | 395,000 |
| Payable from restricted assets: | | |
| Accrued interest payable | 1,156,511 | 812,384 |
| Revenue bonds payable, current portion | 1,226,666 | 1,191,667 |
| Total current liabilities | <u>9,803,233</u> | <u>9,775,188</u> |
| Noncurrent liabilities | | |
| Revenue bonds payable, less current portion | 83,148,284 | 55,524,768 |
| Note payable, less current portion | 831,023 | 911,739 |
| Compensated absences, less current portion | 567,477 | 479,667 |
| Other liabilities, long-term portion | 903,750 | 982,285 |
| Total noncurrent liabilities | <u>85,450,534</u> | <u>57,898,459</u> |
| Total liabilities | <u>95,253,767</u> | <u>67,673,647</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 150,485,603 | 155,303,311 |
| Restricted for debt service | 6,016,423 | 6,016,423 |
| Unrestricted | 38,525,086 | 30,721,858 |
| Total net assets | <u>195,027,112</u> | <u>192,041,592</u> |
| Total liabilities and net assets | <u>\$ 290,280,879</u> | <u>\$ 259,715,239</u> |

CANAVERAL PORT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended September 30, 2008 and 2007

| | 2008 | 2007 |
|--|----------------|----------------|
| Operating revenues | | |
| Fees and charges for services | \$ 46,106,932 | \$ 47,571,781 |
| Operating expenses | | |
| Operations | 10,148,744 | 9,314,809 |
| Public safety | 7,221,901 | 6,553,510 |
| Parks and recreation | 1,177,051 | 925,753 |
| Fire training facility | 189,165 | 195,585 |
| Executive | 1,261,528 | 1,425,290 |
| Finance and administration | 4,140,236 | 4,160,274 |
| Engineering and environmental | 2,352,466 | 1,362,156 |
| Business development | 934,804 | 823,939 |
| Communications | 592,642 | 572,227 |
| Tenant development | 489,910 | 460,669 |
| Depreciation | 12,436,688 | 9,772,259 |
| Amortization | 1,076,006 | 137,843 |
| Bad debt expense | 1,213 | - |
| Total operating expenses | 42,022,354 | 35,704,314 |
| Operating income | 4,084,578 | 11,867,467 |
| Non-operating revenues | | |
| Interest income | 956,787 | 1,961,062 |
| Grant revenue | 384,047 | 61,698 |
| Gain on equipment disposals | 38,554 | - |
| Total non-operating revenues | 1,379,388 | 2,022,760 |
| Non-operating expenses | | |
| Interest expense | 2,460,073 | 2,510,038 |
| Amortization of bond costs and discounts | 430,855 | 397,162 |
| Loss on equipment disposals | 4,559 | 65,192 |
| Commissions and fees | 1,500 | 500 |
| Grant administration fee | 37,000 | 84,000 |
| Casualty loss - natural disaster (Note 3.O.) | 517,137 | 843 |
| Unrealized loss on investments | 306,593 | - |
| Total non-operating expenses | 3,757,717 | 3,057,735 |
| Income before capital contributions | 1,706,249 | 10,832,492 |
| Capital contributions | 1,279,271 | 1,609,053 |
| Change in net assets | 2,985,520 | 12,441,545 |
| Net assets, beginning of year | 192,041,592 | 179,600,047 |
| Net assets, end of year | \$ 195,027,112 | \$ 192,041,592 |

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

CANAVERAL PORT AUTHORITY

Statements of Cash Flows

Years Ended September 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers and users | \$ 47,752,878 | \$ 46,873,239 |
| Cash paid to suppliers for goods and services | (18,182,449) | (15,469,275) |
| Cash payments to employees for services | <u>(10,192,157)</u> | <u>(9,123,938)</u> |
| Net cash provided by operating activities | <u>19,378,272</u> | <u>22,280,026</u> |
| Cash flows from non-capital financing activities: | | |
| Grant revenue | 41,534 | 502,683 |
| Net cash provided by non-capital financing activities | <u>41,534</u> | <u>502,683</u> |
| Cash flows from capital and related financing activities: | | |
| Interest paid on revenue bonds | (2,115,946) | (2,539,783) |
| Principal payments on revenue bonds | (3,575,000) | (3,485,000) |
| Revenue bond proceeds, net of related costs | 31,903,441 | - |
| Acquisition and construction of capital assets | (12,520,227) | (20,537,420) |
| Contributed capital | 1,522,033 | 3,435,302 |
| Principal payments on note payable | (76,027) | (12,234) |
| Principal payments on capital lease | (35,649) | (33,977) |
| Proceeds from the sale of assets | 38,554 | - |
| Payment of commissions and fees | <u>(1,500)</u> | <u>(500)</u> |
| Net cash provided by (used in) capital and related financing activities | <u>15,139,679</u> | <u>(23,173,612)</u> |
| Cash flows from investing activities: | | |
| Interest received on investments | 901,822 | 1,904,428 |
| Reclassification of SBA Fund B from cash equivalent to investment | <u>(1,443,993)</u> | <u>-</u> |
| Net cash provided by (used in) investing activities | <u>(542,171)</u> | <u>1,904,428</u> |
| Net increase in cash and cash equivalents | 34,017,314 | 1,513,525 |
| Cash and cash equivalents, beginning of year | 34,811,938 | 33,298,413 |
| Cash and cash equivalents, end of year | <u>\$ 68,829,252</u> | <u>\$ 34,811,938</u> |

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

CANAVERAL PORT AUTHORITY

Statements of Cash Flows (continued)

Years Ended September 30, 2008 and 2007

Reconciliation of operating income to net cash provided by operating activities:

| | | |
|--|-----------------------------|-----------------------------|
| Operating income | <u>\$ 4,084,578</u> | <u>\$ 11,867,467</u> |
| Adjustment to reconcile operating income to net cash provided by operating activities | | |
| Depreciation expense | 12,436,688 | 9,772,259 |
| Amortization of other assets | 1,076,006 | 137,843 |
| Bad debt expense | 1,213 | - |
| Write-off of construction projects | 1,344,211 | - |
| Grant administration | (37,000) | (84,000) |
| Casualty loss | (517,137) | (843) |
| (Increase) decrease in assets: | | |
| Accounts receivable | 1,689,301 | (965,555) |
| Other receivables, current | (92,722) | 209,948 |
| Prepaid expenses | 60,216 | 1,138,284 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (704,301) | 393,119 |
| Unearned revenue | 48,154 | 57,065 |
| Compensated absences | 75,609 | 81,059 |
| Other liabilities, current | (100,668) | (313,097) |
| Payroll and sales tax payable | 14,124 | (13,523) |
| Total adjustments | <u>15,293,694</u> | <u>10,412,559</u> |
| Net cash provided by operating activities | <u><u>\$ 19,378,272</u></u> | <u><u>\$ 22,280,026</u></u> |

Supplemental schedule of non-cash investing, capital and financing activities:

During 2008 and 2007, the Authority reallocated the amounts related to environmental remediation between current and long term.

| | | |
|--|--------------|--------------|
| Increase in other receivables, current | \$ (291,436) | \$ (137,324) |
| Decrease in other receivables, long term | 291,436 | 137,324 |
| Increase in other liabilities, current | 388,580 | 183,097 |
| Decrease in other liabilities, long term | (388,580) | (183,097) |
| Net non-cash effect | <u>\$ -</u> | <u>\$ -</u> |

During 2008, the Authority recorded an unrealized loss on investments of \$306,953.

During 2007, the Authority entered into a note payable agreement for \$1,000,000 to acquire certain capital assets.

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

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

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CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Canaveral Port Authority (Authority) is the governing body of the Canaveral Harbor Port District, an independent special taxing district established in 1953 by Chapter 28922, Laws of Florida, Special Acts of 1953, as amended.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Authority uses the proprietary fund basis for the presentation of its financial statements. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are fees and charges for cruise ships, cargo ships and land leases. Operating expenses include costs to operate and maintain facilities of the Authority, administrative expenses and depreciation and amortization expenses related to long-lived assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The Canaveral Port Authority operates as an enterprise fund that accounts for the construction, operation and maintenance of the Authority. An enterprise fund is a type of proprietary fund that provides services to the general public. This fund is used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominantly self-supported by user charges. The operations of the Authority are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

The Authority is applying all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. ASSETS, LIABILITIES AND NET ASSETS

1. Cash and Cash Equivalents

State statutes authorize the government to invest in the Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, SEC registered money market funds with the highest credit quality rating, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U. S. Treasury.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. ASSETS, LIABILITIES AND NET ASSETS (CONTINUED)

1. Cash and Cash Equivalents (Continued)

The Canaveral Port Authority invests certain surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the “State Pool”). The State Pool is administered by the Florida State Board of Administration (“SBA”), who provides regulatory oversight. During the year ended September 30, 2008, the SBA reported that the State Pool was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restriction on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools (“LPIG” and “Fund B”).

The LPIG has adopted operating procedures consistent with the requirements for a 2a7-like fund. The Canaveral Port Authority’s investment in the LPIG is reported at amortized cost. The fair value of the Authority’s position in the pool is equal to the value of pooled shares.

The Fund B is reported at fair value, determined by the fair value per share of the pool’s underlying portfolio.

In January of 2008, the Authority made a decision to no longer invest new monies in the SBA. The remaining balances currently invested will be withdrawn as soon as legally allowed.

The Authority pools the investments of its governmental funds. Investment earnings of the pool are allocated to the participating funds at the end of each month based on the ratio of each participant funds’ investment to the total pooled investment.

Cash and cash equivalents include cash deposits, short-term investments with original maturities of three months or less from the date of acquisition, and investments held in the LPIG.

2. Accounts and Other Receivables

The Authority considers accounts and other receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required.

3. Capital Assets

Capital assets are defined by the Authority as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at cost, if purchased and at fair market value at date of gift, if donated. Major additions are capitalized while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense. Contributions received in aid of construction are credited to capital contributions and do not reduce the cost of the assets acquired with such contributions.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. ASSETS, LIABILITIES AND NET ASSETS (CONTINUED)

3. Capital Assets (Continued)

Depreciation is recognized on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes:

| <u>Classification</u> | <u>Range of Lives</u> |
|-----------------------------------|-----------------------|
| Buildings | 30 years |
| Improvements Other Than Buildings | 5-30 years |
| Equipment | 3-20 years |

4. Restricted Assets

Debt proceeds and funds set aside for payment of revenue bonds and construction projects are classified as restricted assets on the statement of net assets because their use is limited by applicable debt covenants.

5. Compensated Absences

All permanent employees of the Authority are eligible for annual leave. Each employee working a normal week earns vacation leave at certain rates depending on the employee's length of service. All annual leave is accrued when earned in the statement of net assets. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay such amounts upon termination.

6. Net Assets – Restrictions

The Authority's statement of net assets reports a restriction on net assets that are maintained for a specific purpose. The nature and purpose of this restriction is:

- Restricted for Debt Service – represents, in accordance with legal restrictions, amounts for payment of principal and interest maturing in later years.

D. REVENUES AND EXPENSES

1. Grants

Grant revenue that can be used for operating purposes is recognized when earned by the Authority. Grants restricted for capital acquisition and construction is recorded as capital contributions when earned. Grant receivable is recorded when the Authority has a right to reimbursement under the related grant.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. REVENUES AND EXPENSES (CONTINUED)

2. Amortization

The Authority recognizes amortization as follows:

| <u>Category</u> | <u>Period</u> | <u>Method</u> |
|---------------------------|-----------------------|---------------|
| Deferred expenses | 3-30 years | straight-line |
| Spoil dike | 30 years | straight-line |
| Beach restoration | 5 years | straight-line |
| Software | 10 years | straight-line |
| Trademarks | 5 years | straight-line |
| Bond discounts & premiums | term of related issue | interest |
| Investment costs | life of investments | straight-line |

3. Capitalized Interest

The Authority's policy is to capitalize interest costs related to construction projects in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 62. The net effect of interest expense and interest income generated from borrowings used for construction projects in progress are capitalized through the date the project is substantially complete and ready for its intended use.

NOTE 2 – BUDGETARY INFORMATION

The Authority's enabling legislation requires adoption of an annual operating budget. The Authority adopts an annual operating and capital improvement budget resolution prior to September 30, for the next ensuing fiscal year. The Authority's budgets are prepared on the accrual basis of accounting which is consistent with generally accepted accounting principles. Operating budgets for the enterprise fund are based on level of service expectations. Capital improvement projects are budgeted to provide control over authorized project expenses and ensure legal compliance.

Budget control is maintained at the departmental level. Actions which change the annual budget must be authorized by the Board of Commissioners. Budget amounts have been adjusted for legally authorized revisions of the annual budgets approved during the year.

The Authority's schedule of revenues, expenses and income before capital contributions compared with the legally adopted budget is presented as supplementary information on pages 32 through 35.

The Authority has statutory authority to levy ad valorem taxes up to three (3) mills annually on all taxable property within the Authority's district boundaries for operation, maintenance and improvement of Authority facilities. **The Authority has not levied property taxes since 1986 and does not expect to do so in the foreseeable future.**

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES

A. DEPOSITS AND INVESTMENTS

At September 30, 2008 and 2007, the carrying amount of the Authority's deposits with banks and savings and loans was \$3,353,870 and \$2,654,883, respectively, and the bank balance was \$3,925,169 and \$3,150,787. In addition, the Authority holds \$500 of petty cash at September 30, 2008 and 2007. The Authority's deposits are insured by the FDIC up to \$200,000, \$100,000 for demand deposits and \$100,000 for savings deposits. Effective October 3, 2008, the federal government temporarily increased the FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009, at which time it will revert back to \$100,000. Monies invested in amounts greater than the insurance coverage are secured by the banks pledging securities with the State Treasurer in the multiple financial institutions collateral pool.

Credit risk

The Authority's investment policy addresses credit risk by restricting the types of investments in which it can invest, consistent with limitations defined in Florida Statutes, as described in Note 1.C.1.

Interest rate risk

The Authority's investment policy does not limit the maturities of investments to reduce the interest rate risk. However, in accordance with the Authority's investment policy, investments should be invested to match investment maturities with known cash needs and anticipated cash flow requirements.

Concentration of credit risk

The Authority's investment policy does not specifically address concentration of credit risk. However, the policy indicates that investments should be diversified to control the risk of loss resulting from over concentration of assets.

At September 30, 2008, the Authority had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in years)</u> | | | | <u>Rating</u> | <u>Agency</u> |
|------------------------|----------------------|---|-------------|---------------------|---------------------|---------------|---------------|
| | | <u>Less than 1</u> | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> | | |
| SBA (LPIG) | \$ 10,364,488 | \$ 10,364,488 | \$ - | \$ - | \$ - | AAAm | S&P |
| SBA Fund B | 1,137,400 | - | - | 1,137,400 | - | Not rated | - |
| US Treasuries | 55,110,394 | 55,110,394 | - | - | - | AAA | S&P |
| | <u>\$ 66,612,282</u> | <u>\$ 65,474,882</u> | <u>\$ -</u> | <u>\$ 1,137,400</u> | <u>\$ -</u> | | |

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

B. INTANGIBLE ASSETS

Intangible assets include deferred expenses, which consist of maintenance dredging; costs incurred in developing an inlet management plan; costs of constructing a spoil dike and an off-shore sand berm; and beach restoration projects. Intangible assets also consist of computer software and a trademark.

Amortization expense charged to operations was \$1,076,006 and \$137,843 for 2008 and 2007, respectively.

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|---------------------|--------------------|
| Cost: | | |
| Deferred expenses | \$ 9,403,104 | \$ 3,989,769 |
| Trademarks | 5,441 | 5,441 |
| Software | 1,073,584 | 62,784 |
| | <u>10,482,129</u> | <u>4,057,994</u> |
| Less: accumulated amortization | <u>(4,865,688)</u> | <u>(3,789,682)</u> |
| | <u>\$ 5,616,441</u> | <u>\$ 268,312</u> |

C. RESTRICTED ASSETS

Debt proceeds and funds set aside for payment of revenue bonds and construction projects are classified as restricted cash and cash equivalents and investments since their use is limited by applicable bond indentures.

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|---------------------|
| Series 1996-B, Series 2002-A and 2002-B, Series 2005, Series 2006-A and 2006-B, and Series 2008 Bond Debt Service and Reserve | | |
| Daily Investment Pool | \$ 8,296,069 | \$ 8,020,474 |
| Construction Trust Account | 32,012,263 | - |
| Total | <u>\$ 40,308,332</u> | <u>\$ 8,020,474</u> |

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

D. CAPITAL ASSETS

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

| | 2008 | | | Balance September 30, 2008 |
|--|-------------------------------|----------------------|------------------------|----------------------------------|
| | Balance October 1, 2007 | Increases | Decreases | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,602,954 | \$ - | \$ - | \$ 4,602,954 |
| Construction in progress | 39,270,685 | 11,901,462 | (38,536,273) * | 12,635,874 |
| Total capital assets, not being depreciated | <u>43,873,639</u> | <u>11,901,462</u> | <u>(38,536,273)</u> | <u>17,238,828</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 21,900,106 | 1,350,778 | (32,573) | 23,218,311 |
| Improvements other than buildings | 246,434,854 | 28,317,850 | - | 274,752,704 |
| Equipment | 13,868,151 | 1,099,299 | (701,019) | 14,266,431 |
| Equipment held under capital lease | 299,953 | - | - | 299,953 |
| Total capital assets being depreciated | <u>282,503,064</u> | <u>30,767,927</u> | <u>(733,592)</u> | <u>312,537,399</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (6,615,072) | (1,610,923) | 32,573 | (8,193,422) |
| Improvements other than buildings | (98,369,569) | (9,464,626) | - | (107,834,195) |
| Equipment | (5,805,593) | (1,331,144) | 696,460 | (6,440,277) |
| Equipment held under capital lease | (159,975) | (29,995) | - | (189,970) |
| Total accumulated depreciation | <u>(110,950,209)</u> | <u>(12,436,688)</u> | <u>729,033</u> | <u>(122,657,864)</u> |
| Total capital assets, being depreciated, net | <u>171,552,855</u> | <u>18,331,239</u> | <u>(4,559)</u> | <u>189,879,535</u> |
| Capital assets, net | <u>\$ 215,426,494</u> | <u>\$ 30,232,701</u> | <u>\$ (38,540,832)</u> | <u>\$ 207,118,363</u> |

* Included in decreases to construction in progress are \$6,424,135 of costs related to completed projects that have been recorded as increases in intangible assets, and \$1,344,211 of engineering costs related to capital projects that have been expensed in the current year as the related project will not be completed. In the above schedule, such decreases to construction in progress do not have corresponding increases to capital assets being depreciated.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

D. CAPITAL ASSETS (CONTINUED)

| | 2007 | | | Balance September 30, 2007 |
|--|-------------------------------|---------------------|------------------------|----------------------------------|
| | Balance October 1, 2006 | Increases | Decreases | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,602,954 | \$ - | \$ - | \$ 4,602,954 |
| Construction in progress | 32,453,748 | 19,994,276 | (13,177,339) | 39,270,685 |
| Total capital assets, not being depreciated | <u>37,056,702</u> | <u>19,994,276</u> | <u>(13,177,339)</u> | <u>43,873,639</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 11,128,008 | 10,948,018 | (175,920) | 21,900,106 |
| Improvements other than buildings | 245,870,891 | 568,371 | (4,408) | 246,434,854 |
| Equipment | 12,714,329 | 1,660,950 | (507,128) | 13,868,151 |
| Equipment held under capital lease | 299,953 | - | - | 299,953 |
| Total capital assets being depreciated | <u>270,013,181</u> | <u>13,177,339</u> | <u>(687,456)</u> | <u>282,503,064</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (5,767,672) | (961,765) | 114,365 | (6,615,072) |
| Improvements other than buildings | (90,559,607) | (7,814,549) | 4,587 | (98,369,569) |
| Equipment | (5,342,956) | (965,949) | 503,312 | (5,805,953) |
| Equipment held under capital lease | (129,979) | (29,996) | - | (159,975) |
| Total accumulated depreciation | <u>(101,800,214)</u> | <u>(9,772,259)</u> | <u>622,264</u> | <u>(110,950,209)</u> |
| Total capital assets, being depreciated, net | <u>168,212,967</u> | <u>3,405,080</u> | <u>(65,192)</u> | <u>171,552,855</u> |
| Capital assets, net | <u>\$ 205,269,669</u> | <u>\$ 3,399,356</u> | <u>\$ (13,242,531)</u> | <u>\$ 215,426,494</u> |

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

E. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following as of September 30:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|---------------------|---------------------|
| Accounts and contracts payable | \$ 1,802,469 | \$ 3,010,705 |
| Retainages payable | 353,138 | 960,801 |
| Hurricane damage liability | 423,795 | - |
| Accrued payroll | 302,175 | 222,237 |
| Accrued employee benefits | 150,786 | 161,686 |
| | <u>\$ 3,032,363</u> | <u>\$ 4,355,429</u> |

F. OTHER LIABILITIES

In 1995, the Authority discovered a toxic contaminated area east of the Authority's former office. During fiscal year 1996, the Authority assessed the degree of contamination at the site, removed contaminated materials and prepared a contamination assessment report. A liability for \$1,100,000 was recorded on the balance sheet at September 30, 1996.

During fiscal year 1996, the Authority reached an agreement, in writing, with the previous lessee of the contaminated site to indemnify the Authority for 75% of the future out-of-pocket costs incurred to monitor and clean-up the site. At September 30, 1996, the Authority accrued a receivable of \$1,299,561 for amounts due under this agreement.

During fiscal year 2000, the original liability had decreased to zero, but the soil decontamination was not complete. The Authority retained the services of a professional site assessment and remediation firm to determine an estimated cost to complete the clean-up. At September 30, 2000, the Authority accrued an additional liability of \$2,250,000 to complete the soil decontamination. A corresponding additional receivable of \$1,687,500 was accrued as the estimated receivable from the former lessee based on the agreement reached in 1996.

During fiscal year 2006, the Authority determined, collaboratively with the assistance of a professional site assessment and remediation firm, the liability was insufficient to close the site, due to testing results indicating the contamination is not contained solely to property owned by the Authority. Accordingly, the Authority accrued an additional liability of \$700,000 to complete the soil decontamination. A corresponding additional receivable of \$525,000 was accrued as the estimated receivable from the former lessee based on the agreement reached in 1996.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

F. OTHER LIABILITIES (CONTINUED)

During fiscal year 2008, the Authority determined, collaboratively with the assistance of a professional site assessment and remediation firm, the liability was insufficient to close the site, due to testing results indicating the requirement of additional monitoring. Accordingly, the Authority accrued an additional liability of approximately \$310,000 to complete the soil decontamination. A corresponding additional receivable of approximately \$233,000 was accrued as the estimated receivable from the former lessee based on the agreement reached in 1996.

The net additional costs to the Authority for the clean-up have been shown in the 2008 Statement of Revenues, Expenses and Changes in Net Assets as engineering and environmental expenses in the amount of approximately \$77,000.

At September 30, 2008 and 2007, the liability balances are \$1,276,617 and \$1,377,285, respectively. These liabilities are reported as other liabilities, current portion in the amount of \$372,867 and \$395,000 at September 30, 2008 and 2007, respectively, and as other liabilities, long-term of \$903,750 and \$982,285, respectively. As of September 30, 2008, management believes the actual liability recorded in the Statement of Net Assets will more than cover the future costs expected to be incurred for the clean-up.

The receivable balances remaining at September 30, 2008 and 2007 are \$1,265,497 and \$1,172,775, respectively. These receivables are included in other receivables, current in the amount of \$587,686 and \$436,062 at September 30, 2008 and 2007, respectively, and in other receivables, long-term of \$677,811 and \$736,713, respectively.

A reconciliation of changes in the aggregate liabilities for the claims related to the contamination follow:

| Claims Liability October 1, 2007 | Fiscal Year 2008 Incurred Claims | Fiscal Year 2008 Payments on Claims | Claims Liability September 30, 2008 |
|---|---|--|--|
| \$ 1,377,285 | \$ 310,045 | \$ (410,713)* | \$ 1,276,617 |
| Claims Liability October 1, 2006 | Fiscal Year 2007 Incurred Claims | Fiscal Year 2007 Payments on Claims | Claims Liability September 30, 2007 |
| \$ 1,690,382 | \$ - | \$ (313,097)* | \$ 1,377,285 |

*Payments on claims are reimbursed by the former lessee at a rate of 75%. In 2008, the Authority received \$139,812 for prior years' claims. In 2007, the Authority received \$92,579 for prior years' claims and \$95,012 for fiscal year 2007 claims.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

G. REVENUE BONDS PAYABLE

The revenue bonds are secured by and payable from the gross operating revenues of the Canaveral Port Authority. The proceeds of these issues were used for capital improvements and refunding certain outstanding issues of the Authority.

The resolutions applicable to the revenue bonds require the establishment of various bond principal and interest sinking funds and reserve accounts with various requirements for deposits. These requirements have been met for the fiscal years ended September 30, 2008 and 2007.

A summary of long-term debt at September 30, 2008 and 2007 follows:

| | 2008 | 2007 |
|--|----------------------|----------------------|
| Port Improvement Revenue Refunding Bonds, Series 1996B | \$ 710,000 | \$ 710,000 |
| Port Revenue Refunding Bonds, Series 2002A | 14,135,000 | 17,410,000 |
| Port Improvement Revenue Bonds, Series 2002B | 8,650,000 | 8,650,000 |
| Port Revenue Refunding Bonds, Series 2005 | 16,005,000 | 16,135,000 |
| Port Revenue Refunding Bonds, Series 2006A | 16,565,000 | 16,735,000 |
| Port Improvement Revenue Bonds Series 2006B | 1,330,000 | 1,330,000 |
| Port Improvement Revenue Bonds Series 2008 | 32,000,000 | - |
| Total revenue bonds | 89,395,000 | 60,970,000 |
| Less: unamortized discounts | (191,097) | (212,402) |
| Plus: unamortized premiums | 428,601 | 483,565 |
| Less: unamortized loss on refunding | (1,899,220) | (2,141,395) |
| | 87,733,284 | 59,099,768 |
| Less: current maturities | (4,585,000) | (3,575,000) |
| Revenue bonds payable, less current portion | <u>\$ 83,148,284</u> | <u>\$ 55,524,768</u> |

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

G. REVENUE BONDS PAYABLE (CONTINUED)

PORT IMPROVEMENT REVENUE REFUNDING BONDS, SERIES 1996B

On July 15, 1996, the Canaveral Port Authority issued Port Improvement Revenue Refunding Bonds Series 1996B in the principal amount of \$15,530,000. These bonds were sold to (i) finance the acquisition and construction of cruise ship terminals and certain waterside and landside improvements, (ii) to advance refund all of the currently outstanding Revenue Bonds, Series 1975B and Refunding Revenue Bonds Series 1976 in the aggregate principal amount of \$1,825,000 and \$760,000, respectively, (iii) to prepay short-term obligations incurred under a line of credit for the purpose of financing improvements to certain cargo berths and infrastructure improvements, (iv) to fund the reserve account and (v) to pay the bond issuance costs.

The Series 1996B bonds bear interest at a rate of 5.7% per annum, payable semi-annually on June 1 and December 1. Principal is due June 1, 2013.

On May 18, 2005, \$14,820,000 of the outstanding Series 1996B bonds was refunded with proceeds from the Port Revenue Refunding Bonds Series 2005. The remaining \$710,000 of Series 1996B bonds mature on June 1, 2013, and are subject to redemption prior to their maturity date, on or after June 1, 2006, at the option of the Authority, in whole at anytime or in part on any interest payment date at the redemption prices (expressed as percentages of the principal amount to be redeemed) plus accrued interest to the redemption date, set forth below:

| <u>Redemption Period</u> | <u>Redemption Price</u> |
|-----------------------------|-------------------------|
| June 1, 2008 and thereafter | 100% |

PORT REVENUE REFUNDING BONDS, SERIES 2002A

On October 8, 2002, the Canaveral Port Authority issued Port Improvement Revenue Refunding Bonds, Series 2002A in the principal amount of \$31,725,000 (i) to refund all of the Authority's Improvement Revenue Refunding Bonds, Series 1992 and (ii) to pay bond issuance costs. Gross revenues are pledged for repayment of these bonds.

The Series 2002A bonds bear interest at rates ranging from 2.5% to 3.4% per annum, payable semi-annually on June 1 and December 1. Principal is due annually beginning June 1, 2003, in amounts increasing from \$3,195,000 to \$3,710,000 at final maturity in 2012.

The Series 2002A bonds are not subject to optional redemption prior to their respective dates of maturity.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

G. REVENUE BONDS PAYABLE (CONTINUED)

PORT IMPROVEMENT REVENUE BONDS, SERIES 2002B

On October 8, 2002, the Canaveral Port Authority issued Port Improvement Revenue Bonds Series 2002B in the principal amount of \$8,650,000. These bonds were sold (i) to finance the acquisition and construction of cruise ship terminals and the West Turning Basin to accommodate future vessels and (ii) to pay the bond issuance costs.

The Series 2002B bonds bear interest at a rate of 3.6% to 5.0% per annum, payable semi-annually on June 1 and December 1. Principal is due annually beginning June 1, 2013, in amounts increasing from \$800,000 to \$1,140,000 at final maturity in 2021.

The Series 2002B bonds are subject to redemption prior to their respective dates of maturity, on or after June 1, 2012, at the option of the Authority, in whole or in part at any time, at the redemption price equal to 100% of the principal amount of the Series 2002B bonds to be redeemed, plus accrued interest to the redemption date.

PORT REVENUE REFUNDING BONDS, SERIES 2005

On May 18, 2005, the Canaveral Port Authority issued Port Improvement Revenue Refunding Bonds; Series 2005 in the principal amount of \$16,360,000 (i) to advance refund a portion of the Authority's Improvement Revenue Refunding Bonds, Series 1996B, (ii) to fund various capital improvements and (iii) to pay bond issuance costs. Gross revenues are pledged for repayment of these bonds.

The refunded bonds are considered defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,052,074. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued.

The Series 2005 bonds bear interest at rates ranging from 3.0% to 5.0% per annum, payable semi-annually on June 1 and December 1. Principal is due annually beginning June 1, 2006, in amounts increasing from \$125,000 to \$1,960,000 at final maturity in 2021.

The Series 2005 bonds maturing on or after June 1, 2016 are subject to redemption prior to their respective dates of maturity, on or after June 1, 2015, at the option of the Authority, in whole or in part, at a redemption price equal to 100% of the principal amount of the Series 2005 bonds to be redeemed, plus accrued interest to the redemption date.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

G. REVENUE BONDS PAYABLE (CONTINUED)

PORT REVENUE REFUNDING BONDS, SERIES 2006A

On March 27, 2006, the Canaveral Port Authority issued Port Revenue Refunding Bonds; Series 2006A in the principal amount of \$16,915,000 (i) to currently refund all of the Authority's Port Improvement Revenue Refunding Bonds, Series 1996A and (ii) to pay bond issuance costs. Gross revenues are pledged for repayment of these bonds.

The Series 2006A bonds bear interest at rates ranging from 3.4% to 5.0% per annum, payable semi-annually on June 1 and December 1. Principal is due annually beginning June 1, 2006, in amounts increasing from \$165,000 to \$1,075,000 at final maturity in 2021.

The Series 2006A bonds maturing on or after June 1, 2017 are subject to redemption prior to their respective dates of maturity, on or after June 1, 2016, at the option of the Authority, in whole or in part, at a redemption price equal to 100% of the principal amount of the Series 2006A bonds to be redeemed, plus accrued interest to the redemption date.

PORT IMPROVEMENT REVENUE BONDS, SERIES 2006B

On March 27, 2006, the Canaveral Port Authority issued Port Improvement Revenue Bonds Series 2006B in the principal amount of \$1,330,000 to (i) fund various capital improvements and (ii) to pay bond issuance costs. Gross revenues are pledged for repayment of these bonds.

The Series 2006B bonds bear interest at a rate of 3.40% to 4.25% per annum, payable semi-annually on June 1 and December 1. Principal is due June 1, 2021.

The Series 2006B bonds maturing on or after June 1, 2017 are subject to redemption prior to their respective dates of maturity, on or after June 1, 2016, at the option of the Authority, in whole or in part, at a redemption price equal to 100% of the principal amount of the Series 2006B bonds to be redeemed, plus accrued interest to the redemption date.

PORT IMPROVEMENT REVENUE BONDS, SERIES 2008

On July 1, 2008, the Canaveral Port Authority issued Port Improvement Revenue Bonds Series 2008 in the principal amount of \$32,000,000 to fund various capital improvements. Gross revenues are pledged for repayment of these bonds.

The Series 2008 bonds bear interest at a rate of 4.752% per annum, payable semi-annually on June 1 and December 1. Principal is due annually beginning December 1, 2008, in amounts increasing from \$860,000 to \$7,935,000 at final maturity in 2021.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

G. REVENUE BONDS PAYABLE (CONTINUED)

At any time up to and including June 1, 2018, the Series 2008 bonds are subject to redemption in whole or in part on any principal due date, at the option of the Authority, for 103% of the principal amount being redeemed, plus accrued interest to the redemption date. At any time after June 1, 2018, the Series 2008 bonds shall be subject to redemption in whole only, at the option of the Authority, for 100% of the principal amount being redeemed, plus accrued interest to the redemption date.

Future maturities and sinking fund requirements, including unamortized discounts of \$191,097, unamortized premiums of \$428,601, and the unamortized loss on refunding of \$1,899,220 for all outstanding revenue bonds payable, as of September 30, 2008, are as follows:

| | Principal | Interest | Total |
|--------------|----------------------|----------------------|-----------------------|
| 2009 | \$ 4,585,000 | \$ 3,342,814 | \$ 7,927,814 |
| 2010 | 4,610,000 | 3,695,413 | 8,305,413 |
| 2011 | 4,775,000 | 3,532,807 | 8,307,807 |
| 2012 | 4,950,000 | 3,359,223 | 8,309,223 |
| 2013 | 5,130,000 | 3,178,140 | 8,308,140 |
| 2014 to 2018 | 29,085,000 | 12,453,194 | 41,538,194 |
| 2019 to 2023 | 36,260,000 | 5,265,388 | 41,525,388 |
| Total | <u>\$ 89,395,000</u> | <u>\$ 34,826,979</u> | <u>\$ 124,221,979</u> |

H. NOTE PAYABLE

During 2007, the Authority entered into a \$1,000,000 note payable agreement related to the purchase of certain capital assets. Monthly repayments of \$11,102 are required for 120 months, which include interest at a fixed rate of 6%. The note matures on July 1, 2017.

I. CAPITAL LEASE

In October 2001, the Authority entered into a capital lease agreement for a fire truck, which it was co-leasing with the City of Cape Canaveral. The interest rate implicit in the lease was 4.919%. The Authority's share of combined annual principal and interest payments was \$37,403, for a total of \$261,821 over the seven year lease term, which ended September 30, 2008.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

J. CHANGES IN LONG-TERM LIABILITIES

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

| | Balance October 1, 2007 | Additions | Reductions | Balance September 30, 2008 | Due Within One Year |
|------------------------------|-------------------------------|----------------------|-----------------------|----------------------------------|------------------------|
| Revenue bonds payable | \$ 60,970,000 | \$ 32,000,000 | \$ (3,575,000) | \$ 89,395,000 | \$ 4,585,000 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (212,402) | - | 21,305 | (191,097) | - |
| For issuance premiums | 483,565 | - | (54,964) | 428,601 | - |
| Loss on refunding | (2,141,395) | - | 242,175 | (1,899,220) | - |
| Note payable | 987,766 | - | (76,027) | 911,739 | 80,716 |
| Capital leases | 35,649 | - | (35,649) | - | - |
| Compensated absences | 493,729 | 470,882 | (395,273) | 569,338 | 1,861 |
| Other liabilities, long-term | 1,377,285 | 310,045 | (410,713) | 1,276,617 | 372,867 |
| Long-term liabilities | <u>\$ 61,994,197</u> | <u>\$ 32,780,927</u> | <u>\$ (4,284,146)</u> | <u>\$ 90,490,978</u> | <u>\$ 5,040,444</u> |
| | Balance October 1, 2006 | Additions | Reductions | Balance September 30, 2007 | Due Within One Year |
| Revenue bonds payable | \$ 64,455,000 | \$ - | \$ (3,485,000) | \$ 60,970,000 | \$ 3,575,000 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (260,423) | - | 48,021 | (212,402) | - |
| For issuance premiums | 540,199 | - | (56,634) | 483,565 | - |
| Loss on refunding | (2,383,571) | - | 242,176 | (2,141,395) | - |
| Note payable | - | 1,000,000 | (12,234) | 987,766 | 76,027 |
| Capital leases | 69,626 | - | (33,977) | 35,649 | 35,649 |
| Compensated absences | 412,670 | 505,066 | (424,007) | 493,729 | 14,062 |
| Other liabilities, long-term | 1,690,382 | - | (313,097) | 1,377,285 | 395,000 |
| Long-term liabilities | <u>\$ 64,523,883</u> | <u>\$ 1,505,066</u> | <u>\$ (4,034,752)</u> | <u>\$ 61,994,197</u> | <u>\$ 4,095,738</u> |

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

K. RESTRICTED NET ASSETS

The following schedule lists the amounts of net assets that are restricted as of September 30, 2008 and 2007, in accordance with the provisions of the respective bond indentures. These amounts represent restricted assets less certain current liabilities payable from restricted assets included in the various debt service, reserve, bond and interest sinking fund accounts.

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|---------------------|---------------------|
| Restricted for Future Debt Service | | |
| Series 1996-B | \$ 40,470 | \$ 40,470 |
| Series 2002-A | 3,836,140 | 3,836,140 |
| Series 2002-B | 387,562 | 387,562 |
| Series 2005 | 837,713 | 837,713 |
| Series 2006A | 861,338 | 861,338 |
| Series 2006B | 53,200 | 53,200 |
| Total debt service restrictions | <u>\$ 6,016,423</u> | <u>\$ 6,016,423</u> |

L. RETIREMENT PLAN

The Authority participates in the Florida Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system administered by the State of Florida Department of Administration, Division of Retirement to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. Amendments may only be made by the State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State of Florida Division of Retirement, 2639-C North Monroe Street, Tallahassee, FL 32399-1560.

Generally, membership is compulsory for all full-time and part-time employees hired prior to January 1, 1996. The employer pays all contributions. The rates for employees as a percent of covered payroll vary depending on the employee's membership class. Contribution rates ranged from 9.85% to 16.53% during 2008, 2007 and 2006. The amount of covered payroll for the years ended September 30, 2008, 2007 and 2006 was \$912,759, \$924,500 and \$1,025,430, respectively. The Canaveral Port Authority's contributions to the System for the three years ended September 30, 2008, 2007 and 2006 were \$94,338, \$95,890, and \$90,418, respectively, and are equal to the required contributions for each year.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 - DETAIL NOTES (CONTINUED)

M. DEFINED CONTRIBUTION PLAN

Effective January 1, 1996, pursuant to Chapter 95-338, Florida Statutes and Resolution 96-12, the Authority elected to cover all employees hired on or after January 1, 1996 under the newly established Canaveral Port Authority Defined Contribution Plan and Trust (The Plan), instead of the Florida Retirement System. Those employees of the Authority who were participants in the Florida Retirement System prior to January 1, 1996 shall remain as participants of the Florida Retirement System for as long as they are employees of the Authority. Required contributions to the Plan are based on 9.85% of salary for the years ended September 30, 2008 and 2007. Plan provisions and contribution requirements are established and may be amended by the Board of Commissioners. The Plan is administered by the Authority.

Employee contributions are not permitted. For the years ended September 30, 2008 and 2007, the total payroll for all employees of the Authority was \$7,582,802 and \$7,034,736, respectively. The amount of covered payroll for the years ended September 30, 2008 and 2007 was \$6,279,269 and \$5,786,626, respectively. The amount of pension expense was \$618,508 and \$569,983, respectively.

N. OTHER POST-EMPLOYMENT BENEFITS

The Canaveral Port Authority provides healthcare coverage to eligible retirees and their eligible dependents. Florida Statutes require local governments to offer the same healthcare coverage to retirees and eligible dependents as is offered to active employees at a premium of no more than the premium applicable to active employees. Annually, the Authority approves a target percentage of benefits to be contributed towards the retirees' annual premium cost. This target contribution rate is currently 56%. Employees hired prior to January 1, 2006 are eligible to receive 100% of the earned percentage of benefits for their lifetime upon age 62 and completion of six years of service, or 30 years of service, if earlier. Employees hired on or after January 1, 2006 are eligible to receive a graduated earned percentage of benefits upon retirement, based on years of service.

As of September 30, 2008, thirty-five retirees (including dependents) had elected coverage under the plan. The Authority finances the plan on a pay-as-you-go basis. The Authority has not set aside any assets to fund future benefits. For the year ended September 30, 2008, the Authority paid premiums for these covered individuals of \$0.

O. NATURAL DISASTER

During the Year ended September 30, 2008, the Authority was impacted by a named Tropical Storm. As of September 30, 2008, the Authority estimated total costs of repairs associated with damage from the storm to be approximately \$517,000, which was recorded as casualty loss – natural disaster. As of the date of the storm's impact, management recorded a corresponding liability in the same amount, which represented the liability to repair such damages. The estimated repair costs are well below the property deductibles per location that are maintained in the Authority's insurance program.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 - DETAIL NOTES (CONTINUED)

O. NATURAL DISASTER (CONTINUED)

Subsequent to year end, the Authority was approved by FEMA to receive grant funds to reimburse the Authority for a portion of the costs incurred as a result of the storm that are less than the insurance deductibles, as well as reimbursement of certain administrative costs, and matching funds from the State of Florida. The Authority recorded grant revenue related to these reimbursements of \$321,428 for the year ended September 30, 2008. A receivable in the same amount is recorded as of September 30, 2008, in due from other governmental units in the statement of net assets.

P. LEASING AND OPERATING AGREEMENT ARRANGEMENTS WITH AUTHORITY AS LESSOR

The Authority leases land and enters into marine terminal facilities agreements with various businesses throughout the Port Authority area. All of the leases and agreements are accounted for as operating leases and agreements. Revenue from leases and agreements was \$5,234,516 for 2008 and \$4,113,670 for 2007. Future lease payments to be received are as follows:

| | |
|--------------|----------------------|
| 2009 | \$ 4,754,511 |
| 2010 | 4,514,664 |
| 2011 | 4,503,453 |
| 2012 | 4,434,675 |
| 2013 | 4,400,602 |
| 2014 to 2018 | 20,863,088 |
| 2019 to 2023 | 18,852,063 |
| 2024 to 2028 | 15,072,217 |
| 2029 to 2033 | 9,114,584 |
| 2034 to 2038 | 5,683,618 |
| 2039 to 2043 | 1,430,608 |
| 2044 to 2048 | 483,965 |
| 2049 to 2053 | 483,965 |
| 2054 to 2057 | 233,916 |
| | <u>\$ 94,825,929</u> |

Q. MAJOR CUSTOMERS

Gross revenues from two cruise line companies totaled \$6,592,751 and \$6,499,812 in 2008. At September 30, 2008, the outstanding trade accounts receivable balances of these two cruise line companies amounted to \$409,276 and \$388,207. Gross revenues from four cruise line companies totaled \$7,969,384, \$6,099,345, \$5,700,485 and \$5,364,185 in 2007. At September 30, 2007, the outstanding trade accounts receivable balances of these four cruise line companies amounted to \$328,761, \$545,806, \$1,659,669 and \$2,581.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

R. RISK MANAGEMENT

The Authority purchases commercial insurance to cover risk of loss for general liability, property and casualty, comprehensive crime and flood and fire.

The Authority bases its need for commercial insurance on "An Analysis of Risk Exposures to Natural Hazards" prepared by the Authority's engineering consulting firm. This analysis showed the Authority has limited exposure in the area of piers and bulkheads and therefore the costs of carrying such insurance do not outweigh the benefits. The Authority is, in essence, insuring itself in these areas. In the past three years, there have been no claims settled exceeding the Authority's insurance coverage. As of September 30, 2008 and 2007, there were no outstanding claims.

S. SIGNIFICANT ESTIMATE

At September 30, 1996, the Authority accrued a liability for the estimated cost of soil decontamination and a receivable for the estimated amount to be received from the lessee to indemnify the Authority for the contamination (see Note 3.F.). During subsequent fiscal years, the Authority revised its estimate of its liability to complete the soil decontamination, and the corresponding receivable from the former lessee to indemnify the Authority for the contamination. At September 30, 2008 and 2007, the balance of the liability is \$1,276,617 and \$1,377,285, respectively and the receivable balance is \$1,265,497 and \$1,172,775, respectively.

T. WASTEWATER SERVICE CAPACITY AGREEMENT

The Authority entered into a franchise agreement for wastewater service capacity with the City of Cocoa Beach ("City"). Under this agreement, beginning April 22, 2000, the City was granted an exclusive franchise to provide wastewater service capacity to the Authority area. This agreement required the Authority to construct wastewater and reclaimed water facilities outside of the Authority area and to contribute the constructed facilities to the City. Related costs of \$1,608,520 were expensed during 2000.

In addition, this agreement required the Authority to construct wastewater and reclaimed water facilities on Port property in the amount of \$1,343,443. These assets were included in the Authority's capital assets at September 30, 2001. The City, in accordance with the agreement, has placed into effect a surcharge upon users in the Port area to reimburse the Authority for their costs incurred to construct the Authority's wastewater and reclaimed water facilities. As the surcharge is collected, it is recorded as capital contributions on the Authority's financial statements. During 2008 and 2007, the surcharge collected from the City was \$180,857 and \$141,818, respectively.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 3 – DETAIL NOTES (CONTINUED)

U. CONCENTRATION - COLLECTIVE BARGAINING UNIT

Substantially all of the Authority's nonmanagement operations, maintenance and security employees are covered by a collective bargaining agreement. The agreement with the District 2A, transportation, technical, warehouse, industrial, and service employees became effective December 12, 2000 and ran through December 31, 2002. The agreement was renewed for additional terms through December 31, 2008.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

A. CONSTRUCTION

Commitments for the repair, modification, improvements, materials and new construction of Port Authority-owned property at September 30, 2008 totaled approximately \$9,949,000. Subsequent to September 30, 2008, the Authority awarded additional contracts for the repair, modification, improvements, materials and new construction of Port Authority-owned property with a combined value of approximately \$7,044,000.

B. MARINE TERMINAL LEASE

During 2008, the Authority entered into a marine terminal lease agreement with a commercial cruise line company, whereby the cruise line company will offer new passenger cruise services initiating from the Canaveral Port Authority. The agreement requires a commitment from the cruise line company through December 31, 2022. The agreement requires the Authority to complete cruise terminal improvements, including dock extension, gangway modifications and an additional parking garage. The estimated cost of such improvements is approximately \$22,000,000. The improvements are to be completed by October 1, 2010. In return, the cruise line company guarantees repayment to the Authority over the life of the agreement, in an amount equal to the cost of the improvements, via a passenger facility charge to be charged by the cruise line company.

C. LITIGATION

Construction Contract

During 2007, an action was filed by a contractor against the Authority for additional compensation under a construction contract. Management estimates the potential range of loss to be between \$0 and \$450,000. However, it is not possible as of the date of this report to estimate the amount of loss likely to be incurred by the Authority, as the case is currently in the preliminary discovery stage. Accordingly, no liability has been accrued in the Authority's Statement of Net Assets as of September 30, 2008.

Other

The Authority is named as a defendant in various other lawsuits. The outcome of the lawsuits is not determinable at this time. It is the opinion of management and of the Authority's legal counsel that the resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

CANAVERAL PORT AUTHORITY

Notes to Financial Statements

September 30, 2008 and 2007

NOTE 5 – RECLASSIFICATION

Certain amounts from the 2007 basic financial statements have been reclassified to conform to the current year presentation.

SUPPLEMENTARY INFORMATION

CANAVERAL PORT AUTHORITY

Schedule of Revenues, Expenses and Income before Capital Contributions Compared with Budget

Year Ended September 30, 2008

| | Budget | Actual | Variance Over (Under) |
|--------------------------------|----------------------|----------------------|-----------------------------|
| Operating revenues | | | |
| Dockage | \$ 5,334,400 | \$ 5,146,752 | \$ (187,648) |
| Wharfage | 23,180,800 | 22,015,178 | (1,165,622) |
| Leases | 5,000,000 | 5,234,516 | 234,516 |
| Water | 1,239,200 | 1,202,840 | (36,360) |
| Parking | 9,696,000 | 9,343,286 | (352,714) |
| Line handling | 1,486,700 | 1,190,739 | (295,961) |
| Advertising | 18,000 | 15,627 | (2,373) |
| Permits | 150,000 | 158,322 | 8,322 |
| Telephone commissions | 40,000 | 20,922 | (19,078) |
| Badging fees | 350,000 | 277,080 | (72,920) |
| Miscellaneous | 28,000 | 24,353 | (3,647) |
| Camping | 863,000 | 862,706 | (294) |
| Recreational parking | 366,300 | 365,596 | (704) |
| Fire training | 110,000 | 132,865 | 22,865 |
| Other park revenues | 44,200 | 39,610 | (4,590) |
| Concessions | 20,000 | 42,087 | 22,087 |
| Foreign trade zone | 14,000 | 34,453 | 20,453 |
| Total operating revenues | <u>47,940,600</u> | <u>46,106,932</u> | <u>(1,833,668)</u> |
| Non-operating revenues | | | |
| Interest income | 1,500,000 | 956,787 | (543,213) |
| Grant revenue | 100,000 | 384,047 | 284,047 |
| Gain on equipment dispositions | - | 38,554 | 38,554 |
| Total non-operating revenues | <u>1,600,000</u> | <u>1,379,388</u> | <u>(220,612)</u> |
| Total revenues | <u>\$ 49,540,600</u> | <u>\$ 47,486,320</u> | <u>\$ (2,054,280)</u> |
| Operating expenses | | | |
| Operations | | | |
| Salaries | | | |
| Harbormasters | \$ 249,200 | \$ 237,456 | \$ 11,744 |
| Maintenance | 719,800 | 688,614 | 31,186 |
| CT support services | 682,500 | 688,255 | (5,755) |
| Parking | 616,700 | 608,837 | 7,863 |
| Landscaping | 879,100 | 817,463 | 61,637 |
| Operation administration | 284,000 | 285,056 | (1,056) |
| Benefits | | | |
| Harbormasters | 129,700 | 117,226 | 12,474 |
| Maintenance | 398,100 | 382,716 | 15,384 |
| CT support services | 487,700 | 473,347 | 14,353 |
| Parking | 260,500 | 237,130 | 23,370 |

CANAVERAL PORT AUTHORITY

Schedule of Revenues, Expenses and Income before Capital Contributions Compared with Budget (continued)

Year Ended September 30, 2008

| | Budget | Actual | Variance Over (Under) |
|------------------------------|-------------------|-------------------|-----------------------------|
| Landscaping | 549,300 | 497,589 | 51,711 |
| Operation administration | 107,600 | 138,573 | (30,973) |
| Utilities | 2,584,500 | 2,784,525 | (200,025) |
| Cruise terminal maintenance | 1,631,500 | 1,354,603 | 276,897 |
| Fender maintenance | 150,000 | 92,707 | 57,293 |
| Other | 88,750 | 50,796 | 37,954 |
| Maintenance and supplies | 447,100 | 330,283 | 116,817 |
| Fuel | 200,000 | 216,597 | (16,597) |
| Service contracts | 568,500 | 142,032 | 426,468 |
| Travel | 8,000 | 4,939 | 3,061 |
| Total operations | <u>11,042,550</u> | <u>10,148,744</u> | <u>893,806</u> |
| Public safety | | | |
| Salaries | 1,748,700 | 1,497,227 | 251,473 |
| Benefits | 835,500 | 665,606 | 169,894 |
| Police protection | 1,658,900 | 1,717,964 | (59,064) |
| Guard services | 1,100,000 | 994,292 | 105,708 |
| Security - special events | 20,000 | 11,400 | 8,600 |
| Harbor patrol | 574,000 | 587,734 | (13,734) |
| Security badging | 258,000 | 226,697 | 31,303 |
| Fire protection | 1,317,720 | 1,253,261 | 64,459 |
| Other | 97,580 | 65,521 | 32,059 |
| Communications services | 73,500 | 102,242 | (28,742) |
| Maintenance and supplies | 145,800 | 91,003 | 54,797 |
| Travel | 11,000 | 8,954 | 2,046 |
| Total public safety | <u>7,840,700</u> | <u>7,221,901</u> | <u>618,799</u> |
| Parks and recreation | | | |
| Salaries | 391,800 | 396,904 | (5,104) |
| Benefits | 213,400 | 222,651 | (9,251) |
| Maintenance and supplies | 73,020 | 57,707 | 15,313 |
| Service contracts | 134,660 | 127,165 | 7,495 |
| Utilities | 199,570 | 331,015 | (131,445) |
| Other park expense | 61,300 | 41,609 | 19,691 |
| Total parks and recreation | <u>1,073,750</u> | <u>1,177,051</u> | <u>(103,301)</u> |
| Fire training facility | | | |
| Service contracts | 57,300 | 54,959 | 2,341 |
| Utilities | 25,600 | 29,686 | (4,086) |
| Insurance | 38,300 | 36,970 | 1,330 |
| Maintenance and supplies | 89,000 | 66,850 | 22,150 |
| Other | 2,000 | 700 | 1,300 |
| Total fire training facility | <u>212,200</u> | <u>189,165</u> | <u>23,035</u> |

CANAVERAL PORT AUTHORITY

Schedule of Revenues, Expenses and Income before Capital Contributions Compared with Budget

(continued)

Year Ended September 30, 2008

| | Budget | Actual | Variance Over (Under) |
|--------------------------------------|-----------|-----------|-----------------------------|
| Executive | | | |
| Salaries - commissioners | 53,200 | 50,275 | 2,925 |
| Salaries - administrative | 353,200 | 302,952 | 50,248 |
| Benefits | 184,900 | 190,468 | (5,568) |
| Federal legislative consultant | 100,000 | 87,912 | 12,088 |
| State legislative consultant | 60,000 | 54,167 | 5,833 |
| Legal | 300,000 | 232,069 | 67,931 |
| Office | 170,400 | 120,421 | 49,979 |
| Planning and studies | 200,000 | 158,477 | 41,523 |
| Travel - federal legislative | 5,000 | 1,842 | 3,158 |
| Travel - commissioners general | 40,000 | 32,625 | 7,375 |
| Travel - administrative | 12,000 | 8,920 | 3,080 |
| Community relations consultant | 30,000 | 20,000 | 10,000 |
| Education/seminars | 5,000 | 1,400 | 3,600 |
| Total executive | 1,513,700 | 1,261,528 | 252,172 |
| Finance and administration | | | |
| Salaries | 989,300 | 1,021,161 | (31,861) |
| Benefits | 409,700 | 405,018 | 4,682 |
| Insurance | 2,550,000 | 2,180,913 | 369,087 |
| Office | 186,200 | 126,724 | 59,476 |
| Personnel training & recruiting | 134,100 | 94,320 | 39,780 |
| Computer support & training | 267,000 | 209,305 | 57,695 |
| Education and seminars | 14,500 | 3,827 | 10,673 |
| Travel | 20,000 | 10,578 | 9,422 |
| Accounting and auditing | 122,100 | 88,390 | 33,710 |
| Total finance and administration | 4,692,900 | 4,140,236 | 552,664 |
| Engineering and environmental | | | |
| Salaries | 479,200 | 486,794 | (7,594) |
| Benefits | 178,600 | 172,558 | 6,042 |
| Engineering - general | 300,000 | 1,219,150 | (919,150) |
| Engineering - planning | 72,500 | 20,225 | 52,275 |
| Engineering - environment | 615,200 | 427,919 | 187,281 |
| Office | 20,000 | 16,275 | 3,725 |
| Education and seminars | 10,500 | 3,712 | 6,788 |
| Travel | 13,200 | 5,833 | 7,367 |
| Total engineering and environmental | 1,689,200 | 2,352,466 | (663,266) |
| Business development | | | |
| Salaries | 377,300 | 338,948 | 38,352 |
| Benefits | 127,000 | 116,743 | 10,257 |
| Advertising | 316,500 | 235,667 | 80,833 |
| Trade development | 291,950 | 189,779 | 102,171 |

CANAVERAL PORT AUTHORITY

Schedule of Revenues, Expenses and Income before Capital Contributions Compared with Budget (continued)

Year Ended September 30, 2008

| | Budget | Actual | Variance Over (Under) |
|--|---------------------|---------------------|-----------------------------|
| FTZ development | 4,750 | 4,839 | (89) |
| Travel | 70,800 | 48,828 | 21,972 |
| Total business development | <u>1,188,300</u> | <u>934,804</u> | <u>253,496</u> |
| Communications | | | |
| Salaries | 161,000 | 117,777 | 43,223 |
| Benefits | 67,800 | 47,053 | 20,747 |
| Promotions | 193,500 | 128,631 | 64,869 |
| Publications-journal | 145,500 | 135,390 | 10,110 |
| Electronic media | 65,500 | 66,613 | (1,113) |
| Advertising | 100,000 | 87,948 | 12,052 |
| Office | 14,400 | 9,198 | 5,202 |
| Travel | 11,500 | 32 | 11,468 |
| Total communications | <u>759,200</u> | <u>592,642</u> | <u>166,558</u> |
| Tenant development | | | |
| Salaries | 138,500 | 140,344 | (1,844) |
| Benefits | 64,800 | 62,484 | 2,316 |
| Office | 17,750 | 4,900 | 12,850 |
| Land use planning | 180,000 | 90,742 | 89,258 |
| Lease preparation | 275,000 | 185,501 | 89,499 |
| Travel | 12,750 | 5,939 | 6,811 |
| Total tenant development | <u>688,800</u> | <u>489,910</u> | <u>198,890</u> |
| Depreciation | 10,000,000 | 12,436,688 | (2,436,688) |
| Amortization | 166,800 | 1,076,006 | (909,206) |
| Bad debt expense | - | 1,213 | (1,213) |
| Total operating expenses | <u>40,868,100</u> | <u>42,022,354</u> | <u>(1,153,041)</u> |
| Non-operating expenses | | | |
| Commissions and fees | 5,000 | 1,500 | 3,500 |
| Amortization of bond costs and discounts | 397,100 | 430,855 | (33,755) |
| Interest expense | 2,460,200 | 2,460,073 | 127 |
| Loss on equipment disposal | - | 4,559 | (4,559) |
| Grant administrative fee | 30,000 | 37,000 | (7,000) |
| Unrealized loss on investments | - | 306,593 | (306,593) |
| Casualty loss - natural disaster | - | 517,137 | (517,137) |
| Total non-operating expense | <u>2,892,300</u> | <u>3,757,717</u> | <u>(865,417)</u> |
| Total expenses | <u>43,760,400</u> | <u>45,780,071</u> | <u>(2,019,671)</u> |
| Income before capital contributions | <u>\$ 5,780,200</u> | <u>\$ 1,706,249</u> | <u>\$ (4,073,951)</u> |

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CANAVERAL PORT AUTHORITY

Schedule of Comparative Revenues, Expenses and Changes in Net Assets

Years Ended September 30, 2008, 2007, 2006, 2005, and 2004

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Operating revenues | | | | | |
| Dockage | \$ 5,146,752 | \$ 6,049,562 | \$ 7,239,781 | \$ 6,559,540 | \$ 6,372,958 |
| Wharfage | 22,015,178 | 23,762,323 | 24,595,271 | 22,201,818 | 21,646,057 |
| Marine terminal leases | - | - | 258,945 | 251,890 | 245,511 |
| Other leases | 5,234,516 | 4,113,670 | 3,564,605 | 3,283,772 | 3,086,965 |
| Storage | - | - | - | - | 4,239 |
| Water | 1,202,840 | 1,272,840 | 1,324,480 | 1,198,150 | 1,206,392 |
| Parking | 9,343,286 | 9,014,333 | 9,116,579 | 6,506,217 | 6,878,802 |
| Line handling | 1,190,739 | 1,365,856 | 1,435,631 | 1,357,883 | 1,347,989 |
| Advertising | 15,627 | 16,715 | 18,703 | 18,103 | 19,136 |
| Permits | 158,322 | 163,169 | 146,177 | 157,648 | 160,609 |
| Telephone commissions | 20,922 | 34,855 | 44,372 | 46,416 | 47,059 |
| Badging fees | 277,080 | 306,286 | 347,503 | 284,989 | 218,193 |
| Miscellaneous | 24,353 | 38,665 | 67,846 | 51,042 | 86,699 |
| Camping | 862,706 | 870,029 | 779,939 | 706,918 | 720,828 |
| Recreational parking | 365,596 | 379,923 | 337,850 | 286,900 | 329,251 |
| Fire training | 132,865 | 124,899 | 107,787 | 146,458 | 151,338 |
| Other park revenues | 39,610 | 37,415 | 51,389 | 49,363 | 33,692 |
| Concessions | 42,087 | 4,086 | - | - | - |
| Foreign trade zone | 34,453 | 17,155 | 14,100 | 14,016 | 13,225 |
| Total operating revenues | 46,106,932 | 47,571,781 | 49,450,958 | 43,121,123 | 42,568,943 |
| Non-operating revenues | | | | | |
| Interest income | 956,787 | 1,961,062 | 1,633,515 | 819,788 | 250,146 |
| Grant revenue | 384,047 | 61,698 | 78,577 | 684,546 | 898,722 |
| Gain on dispositions | 38,554 | - | 4,539 | - | - |
| Total revenues | \$ 47,486,320 | \$ 49,594,541 | \$ 51,167,589 | \$ 44,625,457 | \$ 43,717,811 |
| Operating expenses | | | | | |
| Operations | | | | | |
| Salaries | | | | | |
| Harbormasters | \$ 237,456 | \$ 211,717 | \$ 195,129 | \$ 213,473 | \$ 257,511 |
| Maintenance | 688,614 | 640,471 | 592,999 | 522,646 | 560,737 |
| CT support services | 688,255 | 669,146 | 563,156 | 535,411 | 542,266 |
| Parking | 608,837 | 613,787 | 589,253 | 534,894 | 532,884 |
| Landscaping | 817,463 | 845,513 | 818,839 | 768,344 | 762,414 |
| Other | 285,056 | 204,958 | 245,186 | 186,388 | 144,848 |
| Benefits | | | | | |
| Harbormasters | 117,226 | 99,282 | 94,319 | 101,120 | 103,962 |
| Maintenance | 382,716 | 340,057 | 289,333 | 244,229 | 251,504 |
| CT support services | 473,347 | 429,528 | 351,092 | 303,329 | 300,251 |
| Parking | 237,130 | 221,607 | 286,592 | 193,643 | 159,982 |
| Landscaping | 497,589 | 467,123 | 465,230 | 395,355 | 385,130 |
| Other | 138,573 | 83,361 | 88,251 | 57,762 | 37,876 |
| Fire protection | - | - | - | - | 897,994 |
| Passenger busing | - | - | - | - | 60,510 |
| Other security services | - | - | - | - | 20,506 |
| Utilities | 2,784,525 | 2,529,717 | 2,572,118 | 2,111,433 | 2,100,335 |
| Travel | 4,939 | 567 | 1,777 | 2,586 | 1,839 |

** These items have been reclassified to conform to the September 30, 2006 financial statement presentation.

CANAVERAL PORT AUTHORITY

Schedule of Comparative Revenues, Expenses and Changes in Net Assets (continued)

Years Ended September 30, 2008, 2007, 2006, 2005, and 2004

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--------------------------------|------------|-----------|-----------|------------|-----------|
| Cruise terminal maintenance | 1,354,603 | 1,313,297 | 1,083,430 | 814,466 ** | 698,183 * |
| Fender maintenance | 92,707 | 74,810 | 97,739 | 30,233 | 50,708 |
| Maintenance and supplies | 330,283 | 313,923 | 289,050 | 191,576 | 130,441 * |
| Fuel | 216,597 | 131,219 | 112,091 | 81,978 | 59,835 |
| Service contracts | 142,032 | 61,173 | 90,528 | 75,053 ** | 81,544 * |
| Other | 50,796 | 63,553 | 23,930 | 19,180 ** | 56,162 * |
| Total operations | 10,148,744 | 9,314,809 | 8,850,042 | 7,383,099 | 8,197,422 |
| | | | | | |
| Public Safety | | | | | |
| Salaries | 1,497,227 | 1,487,529 | 1,431,564 | 1,048,986 | 893,268 |
| Benefits | 665,606 | 623,780 | 664,660 | 373,597 | 314,309 |
| Police protection | 1,717,964 | 1,532,374 | 1,293,231 | 1,312,403 | 1,342,787 |
| Guard services | 994,292 | 1,020,870 | 1,096,859 | 1,387,930 | 1,463,436 |
| Security - special events | 11,400 | 2,165 | 4,390 | 18,583 ** | - |
| Harbor patrol | 587,734 | 226,592 | 185,902 | 180,252 | 140,351 |
| Security badging | 226,697 | 220,291 | 233,778 | 219,323 | 238,036 |
| Fire protection | 1,253,261 | 1,216,010 | 996,632 | 899,440 ** | - |
| Travel | 8,954 | 6,448 | 14,934 | 12,512 | 8,297 |
| Communications services | 102,242 | 61,022 | 34,245 | 17,952 ** | - |
| Maintenance and supplies | 91,003 | 85,864 | - | - | - |
| Other | 65,521 | 70,565 | 110,704 | 71,257 ** | 40,060 |
| Total public safety | 7,221,901 | 6,553,510 | 6,066,899 | 5,542,235 | 4,440,544 |
| | | | | | |
| Parks and recreation | | | | | |
| Salaries | 396,904 | 340,242 | - | - | - |
| Benefits | 222,651 | 158,880 | - | - | - |
| Service contracts | 127,165 | 132,552 | 804,680 | 785,780 | 757,684 |
| Utilities | 331,015 | 205,705 | 189,599 | 129,659 | 152,650 |
| Maintenance & supplies | 57,707 | 43,510 | - | - | - |
| Other park expense | 41,609 | 44,864 | 21,491 | 14,241 | 17,498 |
| Total parks and recreation | 1,177,051 | 925,753 | 1,015,770 | 929,680 | 927,832 |
| | | | | | |
| Fire training facility | | | | | |
| Service contracts | 54,959 | 31,883 | 72,632 | 114,080 | 165,537 |
| Utilities | 29,686 | 20,662 | 17,632 | 25,790 | 22,065 |
| Insurance | 36,970 | 37,245 | 36,343 | 31,633 | 32,339 |
| Maintenance and supplies | 66,850 | 105,638 | 26,981 | 40,787 | 23,599 |
| Travel | - | - | - | 414 | 235 |
| Other | 700 | 157 | 633 | 1,935 | 3,773 |
| Total fire training facility | 189,165 | 195,585 | 154,221 | 214,639 | 247,548 |
| | | | | | |
| Executive | | | | | |
| Salaries-Commissioners | 50,275 | 52,883 | 51,139 | 49,134 | 48,380 |
| Salaries-Administrative | 302,952 | 369,480 | 407,382 | 480,380 ** | 480,870 |
| Benefits | 190,468 | 177,952 | 227,896 | 199,040 ** | 179,694 |
| Federal legislative consultant | 87,912 | 65,314 | 61,328 | - | - |

* These items have been reclassified to conform to the September 30, 2005 financial statement presentation.

** These items have been reclassified to conform to the September 30, 2006 financial statement presentation.

CANAVERAL PORT AUTHORITY

Schedule of Comparative Revenues, Expenses and Changes in Net Assets (continued)

Years Ended September 30, 2008, 2007, 2006, 2005, and 2004

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|------------------|------------------|------------------|------------------|------------------|
| State legislative consultant | 54,167 | 45,833 | 41,500 | - | - |
| Legal | 232,069 | 313,781 | 227,409 | 250,922 | 211,975 |
| Office | 120,421 | 171,413 | 207,279 | 174,889 ** | 125,811 |
| Planning and studies | 158,477 | 192,674 | 205,929 | 40,703 | - |
| Travel - fed legislative | 1,842 | 3,720 | 999 | 5,174 | 3,068 |
| Travel - commissioners general | 32,625 | 17,911 | 24,055 | 9,745 | 25,851 |
| Travel - administrative | 8,920 | 10,623 | 3,106 | 14,197 ** | 13,347 |
| Community relations consultant | 20,000 | - | - | - | - |
| Education/Seminars | 1,400 | 3,706 | 2,853 | 4,896 ** | 7,142 |
| Total executive | <u>1,261,528</u> | <u>1,425,290</u> | <u>1,460,875</u> | <u>1,229,080</u> | <u>1,096,138</u> |
| Finance and administration | | | | | |
| Salaries | 1,021,161 | 620,490 | 530,123 | 590,836 ** | 647,724 |
| Benefits | 405,018 | 216,985 | 226,400 | 201,200 ** | 195,258 |
| Insurance | 2,180,913 | 2,882,661 | 1,170,570 | 945,310 | 1,007,713 |
| Office | 126,724 | 332,564 | 242,032 | 31,897 | 56,112 |
| Personnel training & recruiting | 94,320 | - | - | - | - |
| Computer support & training | 209,305 | - | - | - | - |
| Education and seminars | 3,827 | 2,272 | - | 1,317 | 2,690 |
| Travel | 10,578 | 3,665 | 6,586 | 6,081 | 4,983 |
| Accounting and auditing | 88,390 | 101,637 | 97,957 | 110,485 | 73,743 |
| Total finance and administration | <u>4,140,236</u> | <u>4,160,274</u> | <u>2,273,668</u> | <u>1,887,126</u> | <u>1,988,223</u> |
| Engineering and environmental | | | | | |
| Salaries | 486,794 | 467,112 | 359,593 | 333,045 | 491,294 |
| Benefits | 172,558 | 166,858 | 124,182 | 99,925 | 143,756 |
| Engineering - general | 1,219,150 | 213,007 | 254,925 | 454,461 | 603,013 * |
| Engineering - plans | 20,225 | 60,431 | 37,924 | 13,032 | 41,355 |
| Engineering - environment | 427,919 | 429,795 | 361,894 | 223,163 | 207,421 * |
| Legislative consultant | - | - | - | 64,400 | 72,000 |
| Office | 16,275 | 17,880 | 10,003 | 8,679 | 13,088 |
| Education and seminars | 3,712 | 2,615 | 2,500 | 965 | 5,359 |
| Travel | 5,833 | 4,458 | 3,714 | 2,532 | 3,495 |
| Total engineering and environmental | <u>2,352,466</u> | <u>1,362,156</u> | <u>1,154,735</u> | <u>1,200,202</u> | <u>1,580,781</u> |
| Business development | | | | | |
| Salaries | 338,948 | 281,630 | 323,598 | 308,301 ** | 406,072 |
| Benefits | 116,743 | 94,441 | 100,461 | 88,113 ** | 108,332 |
| Advertising | 235,667 | 234,151 | 232,765 | 189,528 ** | 301,347 |
| Trade development | 189,779 | 174,662 | 197,709 | 164,311 ** | 189,851 |
| Strategic planning study | - | - | - | 149,977 | - |
| FTZ development | 4,839 | 1,621 | - | - | - |
| Travel | 48,828 | 37,434 | 47,952 | 40,694 ** | 37,197 |
| Total business development | <u>934,804</u> | <u>823,939</u> | <u>902,485</u> | <u>940,924</u> | <u>1,042,799</u> |

* These items have been reclassified to conform to the September 30, 2005 financial statement presentation.

** These items have been reclassified to conform to the September 30, 2006 financial statement presentation.

CANAVERAL PORT AUTHORITY

Schedule of Comparative Revenues, Expenses and Changes in Net Assets (continued)

Years Ended September 30, 2008, 2007, 2006, 2005, and 2004

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Communications | | | | | |
| Salaries | 117,777 | 125,432 | 106,847 | 129,613 ** | 203,223 |
| Benefits | 47,053 | 49,832 | 45,707 | 41,572 ** | 55,886 |
| Electronic media | 135,390 | 131,580 | 76,161 | 46,200 | 34,158 |
| Publications - journals | 66,613 | 49,389 | 127,971 | 133,163 | 126,216 |
| Advertising | 87,948 | 75,464 | 147,151 | 148,883 | 24,842 |
| Promotions | 128,631 | 130,917 | 118,732 | 129,108 ** | 278,743 |
| Office | 9,198 | 7,438 | 10,587 | 32,048 | 28,703 |
| Travel and expenses | 32 | 2,175 | 2,615 | 5,353 ** | 19,188 |
| Total communications | 592,642 | 572,227 | 635,771 | 665,940 | 770,959 |
| Tenant development | | | | | |
| Salaries | 140,344 | 178,730 | 193,152 | 187,555 ** | - |
| Benefits | 62,484 | 69,203 | 69,010 | 61,863 ** | - |
| Advertising | - | - | 23,525 | 20,132 ** | - |
| Office | 4,900 | 11,083 | 9,727 | 9,769 ** | - |
| Land use planning | 90,742 | 64,993 | 242,011 | 40,705 ** | - |
| Lease preparation | 185,501 | 131,336 | 143,904 | 135,053 ** | - |
| FTZ development | - | - | 10,143 | 2,104 ** | - |
| Travel | 5,939 | 5,324 | 4,336 | 1,217 ** | - |
| Total tenant development | 489,910 | 460,669 | 695,808 | 458,398 | - |
| Depreciation | 12,436,688 | 9,772,259 | 9,279,605 | 9,234,602 | 9,029,292 |
| Amortization | 1,076,006 | 137,843 | 146,743 | 158,213 | 188,629 |
| Bad debt expense | 1,213 | - | - | - | - |
| Total operating expenses | 42,022,354 | 35,704,314 | 32,636,622 | 29,844,138 | 29,510,167 |
| Non-operating expenses | | | | | |
| Commissions and fees | 1,500 | 500 | 2,963 | 3,484 | 2,584 |
| Amortization of bond costs and discounts | 430,855 | 397,162 | 377,039 | 299,708 | 281,000 |
| Interest expense | 2,460,073 | 2,510,038 | 2,678,291 | 2,846,549 | 3,029,086 |
| Loss on equipment disposal | 4,559 | 65,192 | 104,602 | 4,608 | 9,250 |
| Grant administration fee | 37,000 | 84,000 | 11,025 | 55,848 | 39,700 |
| Legal settlements | - | - | 151,884 | 117,500 | 275,000 |
| Environmental remediation | - | - | 175,000 | - | - |
| Casualty loss - natural disaster | 517,137 | 843 | - | 182,621 | 891,129 |
| Unrealized loss on investments | 306,593 | - | - | - | - |
| Total non-operating expense | 3,757,717 | 3,057,735 | 3,500,804 | 3,510,318 | 4,527,749 |
| Total expenses | \$ 45,780,071 | \$ 38,762,049 | \$ 36,137,426 | \$ 33,354,456 | \$ 34,037,916 |
| Total operating revenues | \$ 46,106,932 | \$ 47,571,781 | \$ 49,450,958 | \$ 43,121,123 | \$ 42,568,943 |
| Total operating expenses | 42,022,354 | 35,704,314 | 32,636,622 | 29,844,138 | 29,510,167 |
| Net operating income | \$ 4,084,578 | \$ 11,867,467 | \$ 16,814,336 | \$ 13,276,985 | \$ 13,058,776 |

** These items have been reclassified to conform to the September 30, 2006 financial statement presentation.

CANAVERAL PORT AUTHORITY

Schedule of Comparative Revenues, Expenses and Changes in Net Assets (continued)

Years Ended September 30, 2008, 2007, 2006, 2005, and 2004

| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Total non-operating revenues | \$ 1,379,388 | \$ 2,022,760 | \$ 1,716,631 | \$ 1,504,334 | \$ 1,148,868 |
| Total non-operating expenses | <u>3,757,717</u> | <u>3,057,735</u> | <u>3,500,804</u> | <u>3,510,318</u> | <u>4,527,749</u> |
| Net non-operating loss | <u>\$ (2,378,329)</u> | <u>\$ (1,034,975)</u> | <u>\$ (1,784,173)</u> | <u>\$ (2,005,984)</u> | <u>\$ (3,378,881)</u> |
| Total revenues | \$ 47,486,320 | \$ 49,594,541 | \$ 51,167,589 | \$ 44,625,457 | \$ 43,717,811 |
| Total expenses | <u>45,780,071</u> | <u>38,762,049</u> | <u>36,137,426</u> | <u>33,354,456</u> | <u>34,037,916</u> |
| Net income before capital contributions | 1,706,249 | 10,832,492 | 15,030,163 | 11,271,001 | 9,679,895 |
| Capital contributions | <u>1,279,271</u> | <u>1,609,053</u> | <u>2,691,176</u> | <u>1,742,433</u> | <u>1,033,156</u> |
| Changes in net assets | <u><u>\$ 2,985,520</u></u> | <u><u>\$ 12,441,545</u></u> | <u><u>\$ 17,721,339</u></u> | <u><u>\$ 13,013,434</u></u> | <u><u>\$ 10,713,051</u></u> |

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CANAVERAL PORT AUTHORITY

Schedule of Comparative Operating Revenues by Activity
Years Ended September 30, 2008, 2007, 2006, 2005, and 2004

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Cruise ships | \$ 34,970,797 | \$ 36,348,454 | \$ 36,865,544 | \$ 31,348,757 | \$ 31,762,497 |
| Cargo ships | 3,948,920 | 5,151,315 | 7,039,393 | 6,574,988 | 5,879,221 |
| Other ships | - | - | 110,122 | 198,169 | 107,291 |
| Total ship related operating revenue | <u>38,919,717</u> | <u>41,499,769</u> | <u>44,015,059</u> | <u>38,121,914</u> | <u>37,749,009</u> |
| Land leases | 5,234,516 | 4,113,670 | 3,564,605 | 3,283,772 | 3,086,964 |
| Park operations | 1,309,999 | 1,291,453 | 1,169,178 | 1,043,181 | 1,083,771 |
| Foreign trade zone | 34,453 | 17,155 | 14,100 | 14,016 | 13,225 * |
| Miscellaneous | 608,247 | 649,734 | 688,016 | 658,240 | 635,974 * |
| Total non-ship related operating revenue | <u>7,187,215</u> | <u>6,072,012</u> | <u>5,435,899</u> | <u>4,999,209</u> | <u>4,819,934</u> |
| Total operating revenue | <u>\$ 46,106,932</u> | <u>\$ 47,571,781</u> | <u>\$ 49,450,958</u> | <u>\$ 43,121,123</u> | <u>\$ 42,568,943</u> |

* These items have been reclassified to conform to the September 30, 2005 financial statement presentation.

CANAVERAL PORT AUTHORITY

Schedule of Construction in Progress and Capital Costs Compared with Budget (Prior to Transfer of Completed Projects to Capital Assets)

Years Ended September 30, 2008 and 2007

| | Actual | | | | Budget |
|---|----------------|-----------------|----------------------------|---------------------|---------------------|
| | Prior Years | Current Year | Transfer to Expense (*) | Cumulative Total | Cumulative Total |
| Cruise terminal 5 canopies, toll booth U/G | \$ - | \$ - | \$ - | \$ - | \$ 500,000 |
| Road improvements | 99,899 | - | - | 99,899 | 621,000 |
| Cruise terminal parking lot upgrades | - | 210,871 | - | 210,871 | 211,000 |
| Recreation/tourist development | 6,010 | - | - | 6,010 | 100,000 |
| Security fencing/lighting | 110,247 | 39,147 | - | 149,394 | 650,000 |
| Cruise terminal 4 improvements | 210,301 | - | (210,301) | - | 233,000 |
| Cove/marina - roads and utilities | 842,156 | 315,751 | - | 1,157,907 | 1,656,156 |
| Cruise terminal 10 canopy | 636,310 | 48,747 | (232,100) | 452,957 | 650,000 |
| Cruise terminal 10 mooring dolphins | - | 85,834 | - | 85,834 | 100,000 |
| Cruise terminal communications | 213,800 | - | - | 213,800 | 217,000 |
| Communications equipment | - | - | - | - | 5,000 |
| Cruise terminal generators | 1,439,237 | - | - | 1,439,237 | 1,488,000 |
| Maintenance dredging | 1,353,047 | 2,148,401 | - | 3,501,448 | 3,585,000 |
| South jetty deposition basin | 2,067,171 | - | (110,828) | 1,956,343 | 2,638,000 |
| Cove/marina stormwater | 415,969 | 3,656,225 | - | 4,072,194 | 4,381,000 |
| Other computer equipment | - | 90,219 | - | 90,219 | 90,219 |
| Container yard phase II | - | - | - | - | 13,000 |
| Cruise terminal 6/7 waterside | 1,692,954 | 12,927 | (790,982) | 914,899 | 1,743,000 |
| CCTV portwide upgrades | - | 15,296 | - | 15,296 | 250,000 |
| Badging area upgrade/access control | - | - | - | - | 85,000 |
| Jetty Park upgrades | - | 159,605 | - | 159,605 | 560,000 |
| Cruise terminal gangways | 315,733 | - | - | 315,733 | 350,000 |
| Buildings and improvements | 48,444 | 228,811 | - | 277,255 | 2,480,000 |
| Land improvements | - | - | - | - | 100,000 |
| Fire equipment | - | 24,891 | - | 24,891 | 34,000 |
| Utilities and improvements | 36,886 | - | - | 36,886 | 175,000 |
| Office equipment | - | 41,797 | - | 41,797 | 50,000 |
| New/replacement vehicles | - | 406,321 | - | 406,321 | 486,000 |
| Cruise terminal 8 | | | | | |
| embarkation mods | 11,104 | - | - | 11,104 | 200,000 |
| Maritime museum | 15,354 | - | - | 15,354 | 100,000 |
| Cruise terminal 10 upgrades | 53,464 | - | - | 53,464 | 125,000 |
| Cruise terminal furniture/equipment | - | 12,327 | - | 12,327 | 50,000 |
| North cargo piers 1,2,3 and 4 repairs | 6,743,141 | - | - | 6,743,141 | 6,743,200 |
| North cargo piers 3,4 bulkhead wall replace | - | - | - | - | 50,000 |
| Northside drainage system | 508,890 | 36,721 | - | 545,611 | 1,870,000 |
| Pump out facility | 58,037 | - | - | 58,037 | 300,000 |
| George King Blvd. improvements | 370,327 | 250,074 | - | 620,401 | 1,370,000 |

CANAVERAL PORT AUTHORITY

Schedule of Construction in Progress and Capital Costs Compared with Budget
Years Ended September 30, 2008 and 2007

| | Actual | | | Budget | |
|--|----------------------|----------------------|----------------------------|----------------------|----------------------|
| | Prior Years | Current Year | Transfer to Expense (*) | Cumulative Total | Cumulative Total |
| George King Blvd aquifer storage | 559,916 | 196,305 | - | 756,221 | 1,329,000 |
| Stormwater improvements | 177,969 | - | - | 177,969 | 549,000 |
| West turning basin deepen/ widen/cut off | 2,160,377 | 193,886 | - | 2,354,263 | 2,918,000 |
| West turning basin bulkhead cut off | - | 165,632 | - | 165,632 | 1,205,826 |
| West turning basin security road | - | - | - | - | 94,174 |
| Cruise terminal 5 roof | 230,003 | - | - | 230,003 | 250,000 |
| Cruise terminal 5 baggage area roof upgrade | - | - | - | - | 275,000 |
| Cruise terminal 12 | 38,960 | - | - | 38,960 | 39,000 |
| New computer system | 1,010,802 | - | - | 1,010,802 | 1,011,000 |
| North cargo staging area | 1,806,069 | - | - | 1,806,069 | 1,806,070 |
| South cargo pier 1 and 2 | 12,143,793 | 332,924 | - | 12,476,717 | 13,144,000 |
| South cargo pier bulkhead wall replace | 2,947,048 | 366,387 | - | 3,313,435 | 3,500,000 |
| South cargo pier 4 east extension/widening | - | 271,504 | - | 271,504 | 2,000,000 |
| Portwide signage | 224,287 | 198,274 | - | 422,561 | 650,000 |
| Port control center upgrades | 28,040 | 1,751 | - | 29,791 | 122,000 |
| Scallop drive paving | 93,687 | (28,492) | - | 65,195 | 2,500,000 |
| Equipment | - | 140,831 | - | 140,831 | 150,000 |
| Joint port intelligent and operations center | - | 111,490 | - | 111,490 | 1,000,000 |
| Landscape and recreation improvements | - | 35,409 | - | 35,409 | 200,000 |
| Cruise terminal 8 and 10 chiller improvements | 601,253 | 338,288 | - | 939,541 | 965,251 |
| Cruise terminal 5 upgrades | - | 29,456 | - | 29,456 | 275,000 |
| Cruise terminal 8 parking garage | - | 140,211 | - | 140,211 | 230,000 |
| Cruise terminal 10 berth extension | - | 68,498 | - | 68,498 | 100,000 |
| Cruise terminal 10 garage artwork upgrade | - | 36,000 | - | 36,000 | 200,000 |
| Cruise terminal 10 upgrades | - | 31,888 | - | 31,888 | 500,000 |
| Cruise terminal 10 x-ray area upgrades | - | 578,262 | - | 578,262 | 1,200,000 |
| Fire station air conditioner replacement | - | 151,444 | - | 151,444 | 200,000 |
| Interoperable communications | - | - | - | - | 1,000,000 |
| Southside petroleum berth | - | 5,658 | - | 5,658 | 50,000 |
| Cruise terminal 8 improvements | - | 452,715 | - | 452,715 | 453,000 |
| Cruise terminal 8 waterside improvements | - | 299,176 | - | 299,176 | 885,000 |
| | <u>\$ 39,270,685</u> | <u>\$ 11,901,462</u> | <u>\$ (1,344,211)</u> | <u>\$ 49,827,936</u> | <u>\$ 73,060,896</u> |

(*) Represents capital projects expensed during the current fiscal year instead of capitalized since the project will not be completed.

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CANAVERAL PORT AUTHORITY

Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Fiscal Year Ended September 30, 2008

| Federal/State Agency, Pass-through Entity, Federal/State Project | CFDA/ CSFA Number | Contract/Grant Number | Expenditures |
|---|-------------------------|-----------------------|--------------|
| U.S. Department of Homeland Security | | | |
| Indirect Program | | | |
| Passed through State of Florida Department of Community Affairs | | | |
| Public Assistance Grants | | | |
| FEMA - Tropical Storm Fay | 97.036 | 08-FA-B9-06-15-00-506 | 321,428 |
| U.S. Department of Environmental Protection | | | |
| Indirect Program | | | |
| Passed through State of Florida Department of Environmental Protection | | | |
| Nonpoint Source Implementation Grant | 66.460 | G0189/C9-99451505-0 | 457,639 |
| Total expenditures of federal awards | | | \$ 779,067 |
| Department of Transportation | | | |
| Direct Programs | | | |
| Seaport Grants | | | |
| Widen West Turning Basin Entrance | 55.005 | A0967/418410-1-94-01 | \$ 96,943 |
| Cargo Pier Improvements | 55.005 | AOX63/422545-1-94-01 | 215,968 |
| Total Seaport Grants | | | 312,911 |
| Florida Highway Beautification Council | 55.003 | AOS28/422861-1-74-01 | 268,497 |
| Total Department of Transportation | | | 581,408 |
| Florida Department of Environmental Protection | | | |
| Direct Programs | | | |
| Canaveral Inlet Management Plan | 37.003 | 06BE1 | 61,241 |
| Aquifer Storage and Recovery | 37.003 | LP6009 | 59,367 |
| Total Department of Environmental Protection | | | 120,608 |
| Total expenditures of state financial assistance | | | \$ 702,016 |

Note: This schedule is prepared on the accrual basis of accounting.

CANAVERAL PORT AUTHORITY

Schedule of Insurance in Force

For the Year Ended September 30, 2008

Property coverage

| | | |
|--|----|-------------|
| Total insured values | \$ | 105,083,968 |
| Limit on buildings, contents, EDP, signs | | 50,000,000 |
| Earthquake | | 20,000,000 |
| Flood | | 20,000,000 |

Primary flood insurance policies

| | | |
|-----------------------------|----|-----------|
| Baggage buildings | \$ | 1,667,200 |
| Maritime center | | 500,000 |
| Cruise terminal #2 | | 500,000 |
| Cruise terminal #3 | | 500,000 |
| Cruise terminal #4 | | 500,000 |
| Cruise terminal #5 | | 500,000 |
| Cruise terminal #8 | | 500,000 |
| Cruise terminal #10 | | 500,000 |
| Customs offices | | 500,000 |
| Old administration building | | 500,000 |
| Security office | | 446,000 |
| Maintenance building West | | 366,000 |
| Maintenance building East | | 201,000 |
| Storage building | | 325,600 |
| Boom storage building | | 158,000 |
| Immigration office trailer | | 119,000 |
| Electrical switch gears | | 104,000 |
| Office trailers | | 104,500 |
| Charter house offices | | 44,000 |

Comprehensive general liability

| | | |
|---|----|-----------|
| Comprehensive per occurrence/ bodily injury and property damage | \$ | 1,000,000 |
|---|----|-----------|

Automobile liability and physical damage

| | | |
|--|----|-----------|
| Bodily injury and property damage | \$ | 1,000,000 |
| Medical payments | | 50,000 |
| Personal injury protection | | Statutory |
| Hired auto liability | | 1,000,000 |
| Employers non-owned auto liability | | 1,000,000 |
| Hired auto physical damage limit per vehicle | | 35,000 |
| Garage keepers legal liability | | 500,000 |

Workers compensation

| | | |
|---|----|-----------|
| Employers liability | | |
| Bodily injury by accident/each accident | \$ | 1,000,000 |
| Bodily injury by disease/each employee | | 1,000,000 |
| Bodily injury by disease/aggregate | | 1,000,000 |

CANAVERAL PORT AUTHORITY

Schedule of Insurance in Force (continued)

For the Year Ended September 30, 2008

| | |
|---|---------------|
| Umbrella liability | |
| Per occurrence | \$ 50,000,000 |
| Public officials liability – claims made | |
| Each wrongful act/aggregate | \$ 10,000,000 |
| Comprehensive crime insurance | |
| Employee dishonesty | \$ 500,000 |
| Depositors forgery | 500,000 |
| Computer fraud | 500,000 |
| Money & securities – inside | 500,000 |
| – outside | 500,000 |
| Florida storage tank | |
| Per occurrence | \$ 1,000,000 |
| Aggregate | 2,000,000 |
| Fiduciary liability | |
| Aggregate | \$ 1,000,000 |

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**ADDITIONAL ELEMENTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS,
AND THE RULES OF THE AUDITOR GENERAL**

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Hoyman Dobson

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Commissioners
Canaveral Port Authority

We have audited the accompanying financial statements of the Canaveral Port Authority as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Canaveral Port Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Canaveral Port Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Canaveral Port Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Canaveral Port Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Canaveral Port Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs [IC2008-01] to be a significant deficiency in internal control over financial reporting.



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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.


Compliance and Other Matters

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

We noted a certain other matter that we reported to management of the Canaveral Port Authority in a separate letter, Independent Auditors' Management Letter, dated February 9, 2009.

The Canaveral Port Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Canaveral Port Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, state and federal awarding agencies, specific legislative or regulatory bodies, and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
February 9, 2009



Hoyman Dobson

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General

To the Board of Commissioners
Canaveral Port Authority

Compliance

We have audited the compliance of the Canaveral Port Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, and the requirements described in the Executive Office of the Governor's *State Projects Compliance Supplement*, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008. The Canaveral Port Authority's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the Canaveral Port Authority's management. Our responsibility is to express an opinion on the Canaveral Port Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Canaveral Port Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Canaveral Port Authority's compliance with those requirements.

In our opinion, the Canaveral Port Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008.



Internal Control Over Compliance

The management of the Canaveral Port Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Canaveral Port Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Canaveral Port Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Board of Commissioners, management, federal and state awarding agencies, specific legislative or regulatory bodies, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
February 9, 2009

CANAVERAL PORT AUTHORITY

Schedule of Findings and Questioned Costs – Federal Programs and State Projects
For the Year Ended September 30, 2008

SECTION A – SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Canaveral Port Authority.
2. Significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the Canaveral Port Authority were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal and state award programs are reported.
5. The auditor's report expresses an unqualified opinion on both the major federal and state award programs.
6. We had no audit findings that would be required to be reported in accordance with Section 510(a) of OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General.
7. The programs tested as major federal programs or state projects include:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 97.036 | Public Assistance Grants – FEMA – Tropical Storm Fay |
| 66.460 | Nonpoint Source Implementation Grant |

| <u>CSFA Number(s)</u> | <u>Name of State Project</u> |
|-----------------------|--|
| 55.005 | Seaport Grants |
| 55.003 | Florida Highway Beautification Council |

8. The threshold used for distinguishing between Type A and B programs was \$300,000 for federal grants. The threshold for distinguishing between Type A and B projects was \$210,605 for state grants.
9. The Canaveral Port Authority did not qualify as a low-risk auditee.

CANAVERAL PORT AUTHORITY

Schedule of Findings and Questioned Costs – Federal Programs and State Projects (Continued)

For the Year Ended September 30, 2008

SECTION B – FINDINGS – FINANCIAL STATEMENTS

IC 2008-01 REVIEW OF EMPLOYEE TIME SHEETS

Criteria: Hourly employees prepare timesheets on a bi-weekly basis. Timesheets are reviewed by an appropriate supervisor, and then submitted to the payroll department for processing.

Condition: Several Issues were noted during our audit that indicated an adequate review of the time cards was not being performed to ensure total employee pay was being calculated in accordance with the Authority policies, including the calculation of overtime, holiday pay, etc. Management recalculated the underpayment of wages to be approximately \$3,000 from fiscal year 2006 to fiscal year 2008.

Effect: A lack of adequate review by either supervisors or the payroll department could cause employee pay, including overtime, holiday pay, etc. to be incorrectly calculated, resulting in either over or underpayment.

Recommendation: We recommend the Authority train its supervisors on the policies related to overtime and holiday pay and/or consider revising the time sheets to make them easier to review. In addition, we recommend the exact amount of the underpayments be calculated and remitted to the employees.

Management Response: For the time period of June 2006, 2007 and 2008 there were errors found in how some employees were paid, those errors equate to approximately three thousand dollars. Over that same time period, the amount of total payroll paid was over 15 million dollars. Canaveral Port Authority agrees that this is an issue that must be addressed; however the magnitude of the error is nominal.

Nonetheless, there will need to be a complete review of the entire payroll process. Changes will need to occur in all aspects of the process from how employee's record time, how time and attendance is kept at the department level, and the role of the payroll department.

We are presently in the process of revising the above mentioned process to ensure that best practices for our time keeping and payroll process is in place to guarantee that this issue does not arise again in the future.

The Authority is in the process of verifying and remitting all payments due to employees due to the issue above.

SECTION C – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AND STATE PROJECTS

No matters were reported.

CANAVERAL PORT AUTHORITY

Schedule of Findings and Questioned Costs – Federal Programs and State Projects
(Continued)

For the Year Ended September 30, 2008

SECTION D – OTHER ISSUES

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to Federal or State financial assistance projects.

No Corrective Action Plan is required because there were no findings required to be reported under either OMB Circular A-133 or the Florida Single Audit Act.

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Hoyman Dobson

Independent Auditors' Management Letter

Board of Commissioners
Canaveral Port Authority

We have audited the financial statements of the Canaveral Port Authority as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated February 9, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. We have issued our Independent Auditors' Report on Compliance and Internal Control over Financial Reporting, Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 9, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- ❖ Section 10.554(l)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial report have been corrected except as noted below [ML 2008-01].
- ❖ Section 10.554(l)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Canaveral Port Authority complied with Section 218.415, Florida Statutes.
- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we noted the following recommendation:



ML 2008-01 INFORMATION TECHNOLOGY-LOGICAL ACCESS AND CONTROLS

Observations: Since the Canaveral Port Authority implemented new accounting software during fiscal year 2007, as part of the fiscal year 2007 audit, we performed an in-depth assessment of the information technology internal controls at the Authority in order to determine the effect on our audit, in accordance with Statement on Auditing Standards #94. Our assessment did not uncover any issues that would affect our audit approach; however, we did have recommendations for the Port on how the controls could be further strengthened. During the fiscal year 2008 audit, we reviewed the prior year findings, noting the majority of findings were cleared. We presented to Authority management a separate report as of September 30, 2008 to report either matters that were repeated or revised from the prior year, or identified during the current year audit. All matters in the report were discussed with management. The subject matter covered under this assessment and our findings are confidential in nature, and thus specific details of our findings are not disclosed to avoid the possibility of compromising Authority information and security. This exemption from Florida Statutes 119.07(1) and other laws and rules requiring public access or disclosure is addressed under Florida Statute Section 281.301, Security systems; records and meetings exempt from public access or disclosure, and Florida Statute Section 282.318(2)(a).

Management Response: We have reviewed the above referenced report and have provided responses to the observations and recommendations made by the auditors. Management does not believe that any of the findings in the report are material in nature. We intend to appropriately address the suggestions made in the upcoming fiscal year.

- ❖ Section 10.554(l)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an affect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

- ❖ Section 10.554(l)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of the Canaveral Port Authority is disclosed in the footnotes. The Canaveral Port Authority has no component units.
- ❖ Section 10.554(l)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the special condition(s) met. In connection with our audit we determined that the Canaveral Port Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(l)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Canaveral Port Authority for the fiscal year ended September 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information and use of the Board of Commissioners and management, federal and state awarding agencies, specific legislative or regulatory bodies, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Hoyman Dobson
Melbourne, Florida
February 9, 2009

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CANAVERAL PORT AUTHORITY

Appendix A - Schedule of Seaport Bond Program Projects
For the Year Ended September 30, 2008

| Project Description | Project Number/ Bond Fund | Total Authorized Project Costs | Current Year Expenditures | Cumulative Expenditures | Expenditures to Total Authorized Project Costs |
|---|------------------------------|---|---------------------------------|-----------------------------|---|
| Cruise Terminal 8 | 97-2RP / 320.20(3) | \$ 11,000,000 | \$ - | \$ 11,000,000 | 100% |
| Canaveral Cove | 96-2P / 320.20(3) | 1,044,000 | - | 1,044,000 | 100% |
| Channel Widening & Deepening | 97-3RP / 320.20(3) | 800,000 | - | 800,000 | 100% |
| Roro Ramp and Container Yard | 97-7 / 320.20(3) | 3,316,229 | - | 3,316,229 | 100% |
| Parking Cruise Terminal 2&3 | 97-5 / 320.20(3) | 235,885 | - | 235,885 | 100% |
| Wastewater | 97-1P / 320.20(3) | 980,329 | - | 980,329 | 100% |
| Fire Training Facility | 97-10 / 320.20(3) | 994,640 | - | 994,640 | 100% |
| Fire Station | 97-8 / 320.20(3) | 595,000 | - | 595,000 | 100% |
| Cruise Terminal 6&7 | 98-1 / 320.20(3) | 258,633 | - | 258,633 | 100% |
| South Cargo Pier 4 Extension | 99-1 / 320.20(3) | 2,534,702 | - | 2,534,702 | 100% |
| Additions and Modifications to Cruise Terminals No. 5 & 10 | 2000-1 / 320.20(3) | 1,918,599 | - | 1,918,599 | 100% |
| Landside and Waterside Modifications to CT5 (Megaship) | 01-P-2E / 320.20(3) | 1,213,658 | - | 1,213,658 | 100% |
| Various Bulkheads | 2000-3 / 320.20(3) | 675,000 | - | 675,000 | 100% |
| Total of 320.20(3) Fund | | <u>25,566,675</u> | <u>-</u> | <u>25,566,675</u> | <u>100%</u> |
| George King Interchange (75/25) | 00-4P / 320.20(4) | 11,979,302 | - | 11,979,302 | 100% |
| South Intermodal Gate (50/50) | 97-9 / 320.20(4) | 146,000 | - | 146,000 | 100% |
| Widener Widening (75/25) | 00-5 / 320.20(4) | 334,284 | - | 334,284 | 100% |
| WTB SR 401 Overpass (75/25) | 00-7P / 320.20(4) | 3,693,000 | - | 3,693,000 | 100% |
| WTB SR 401 Intermodal Gate (50/50) | 00-7P / 320.20(4) | 5,180,000 | - | 5,180,000 | 100% |
| Security Access Control (90/10) | PS1-03 / 320.20(4) | 327,236 | - | 327,236 | 100% |
| Total 320.20(4) Fund | | <u>21,659,822</u> | <u>-</u> | <u>21,659,822</u> | <u>100%</u> |
| Grand Total | | <u><u>\$ 47,226,497</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 47,226,497</u></u> | <u><u>100%</u></u> |

Note: The Schedule of Seaport Bond Program Project is on the cash basis of accounting.