

CONSOLIDATED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

Palm Beach County Department of Airports

For the years ended September 30, 2002 and 2001
with Reports of Independent Certified Public Accountants

Palm Beach County Department of Airports

Consolidated Financial Statements and
Other Financial Information

Years ended September 30, 2002 and 2001

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Report of Independent Certified Public Accountants

To the Honorable Board of County Commissioners
Palm Beach County, Florida

We have audited the accompanying consolidated basic financial statements of the Palm Beach County Department of Airports as of and for the years ended September 30, 2002 and 2001, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of the Palm Beach County Department of Airport's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the consolidated basic financial statements referred to above present only the Palm Beach County Department of Airports, an enterprise fund of Palm Beach County, Florida, and are not intended to present fairly the financial position of Palm Beach County, Florida, and the changes in financial position and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States.

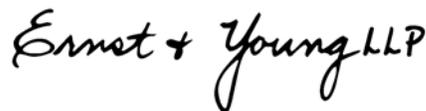
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Palm Beach County Department of Airports as of September 30, 2002 and 2001, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 12 to the consolidated basic financial statements, effective October 1, 2001, the Palm Beach County Department of Airports adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. As of October 1, 2000, the Palm Beach County Department of Airports adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which resulted in a change to the Airport's method of accounting for capital contributions.

In accordance with *Government Auditing Standards*, we have issued our report, dated January 6, 2003, on our consideration of the Palm Beach County Department of Airports' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the Palm Beach County Department of Airports consolidated basic financial statements. The accompanying other financial information is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. This information has been subjected to the auditing procedures applied in the audits of the consolidated basic financial statements and, in our opinion, as of September 30, 2002 and 2001, is fairly stated in all material respects in relation to the consolidated basic financial statements taken as a whole.



January 6, 2003

Palm Beach County Department of Airports

Management's Discussion and Analysis

September 30, 2002

The following Management Discussion and Analysis (MD & A) of the Palm Beach County Department of Airports (the Department) activities and financial performance provides the reader with an introduction to the consolidated basic financial statements of the Department of Airports for the fiscal year ended September 30, 2002. The information contained in this MD & A should be considered in conjunction with the information contained in the consolidated basic financial statements including the notes thereto which are essential to a full understanding of the financial statement data. In addition to the consolidated basic financial statements and accompanying notes, this section presents certain required supplementary information regarding debt service requirements to maturity and a schedule of Department payments to other governmental units for goods and services.

Airport Activities and Highlights

The effects of the September 11 attacks were felt on the entire aviation industry including the Department. Passenger traffic dropped by nearly 12% as a direct result of the slowdown caused by the September 11 event. This was an abrupt change to the record passenger increases that had been experienced in the prior fiscal year (2001). With the addition of jetBlue and Southwest Airlines in early 2001, the Department had been experiencing growth in most all activity and financial measures.

Fiscal Year 2002, however, was significantly impacted by the national decline in passenger demand. Passenger concerns over safety, airport delays, bankrupt airlines, and general economic conditions all played a part in the national declines. Additionally, passenger declines at Palm Beach International Airport (PBI) can also be blamed for decreased capacity in the form of reduced air carrier service. US Airways, PBI's second largest carrier, reduced flights by approximately 40% during the fiscal year. Other carriers reduced flights slightly, while only jetBlue showed significant increases in service. Overall, airline seat capacity declined by as much as 23% in some months during Fiscal 2002.

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Airport Activities and Highlights (continued)

The following table shows a summary of various activities:

	2002	2001	2000
Enplanements	2,694,214	3,054,355	2,946,185
% increase/(decrease)	(11.79)%	3.67%	2.30%
Air carrier operations	60,744	73,254	72,535
	(17.08)%	0.99%	(19.31)%
Landed weight	3,807,108	4,297,015	4,067,668
	(11.40)%	5.64%	3.40%
Cargo tons	19,511	22,982	23,974
	(15.10)%	(4.14)%	(4.75)%
Parking (transactions)	1,179,617	1,393,094	1,399,380
	(15.32)%	(0.45)%	(1.40)%

It should be noted that some signs of recovery occurred late in the fiscal year and early in fiscal 2003. AirTran Airways started service in December 2002 with three flights daily, with a fourth to be added in February of 2003. Delta Airlines added back service, US Airways added back service, jetBlue continues growing at PBI, and Southwest added back service. Overall airline seat capacity has increased, for the first time, to pre-September 11 levels in December 2002. While flight operations are down over prior years, most of these decrease are attributable to the elimination of a number of small commuter aircraft replaced by fewer, (but larger capacity) jet powered aircraft.

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Financial Operations Highlights

While the 9/11 impacts affected some operating revenues and expenses, the overall financial position remained relatively stable and in terms of total net assets, actually improved over the prior fiscal year. Financial impacts are highlighted as follows:

- Operating revenues decreased by 8%, declining from \$48.4 million to \$44.6 million. Contributing to the decline was decreased parking revenues of \$1.4 million and decreased car rental concessions of \$900,000. Landing fees also declined by \$749,000; landing fees declined partly due to decreased flights but also because of decreased landing fee rates charged by the Department. Terminal rentals declined by \$700,000, however, this decline is 100% attributable to reduced terminal rates charged by the Department.
- Operating Expenses increased by 9.5% largely due to additional security costs associated with 9/11. Total Operating Costs increased from \$29.4 million to \$32.2 million. Additional security patrols were mandated by the Federal Aviation Administration and the Transportation Security Administration (FAA/TSA). Security services were performed by Law Enforcement Officers, Departmental Operations Officers, and Contract security firms. Much of the security cost was concentrated in the months immediately following 9/11. Most of these security components were discontinued on the approval of the FAA/TSA midway through the fiscal year. Additionally, the TSA has also been authorized to reimburse the Department for certain costs associated with checkpoint security. Management believes that future operating costs for security (on a net basis) will be somewhat less than experienced in fiscal year 2002.
- Operating grants totaling approximately \$2 million were made available from the State and Federal governments to reduce the impacts on additional security costs and lost parking revenues associated with the 9/11 event. Approximately \$1.5 million was recognized in fiscal 2002, the remainder will be recognized in fiscal 2003.
- Interest expense from Revenue Bonds decreased by \$2 million as a result of refinancing and repayment of various bond issues which occurred in Fiscal 2001 and 2002.
- Increase in net assets increased by \$3.5 million over the prior fiscal year.

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Summary of Revenues and Expenses

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating revenues	\$ 44,647,746	\$ 48,469,276	\$ 49,979,155
Operating expenses	<u>32,266,025</u>	<u>29,418,398</u>	<u>26,709,920</u>
Excess before depreciation and other non-operating revenues and expenses	12,381,721	19,050,878	23,269,235
Depreciation	<u>15,635,049</u>	<u>15,869,646</u>	<u>16,723,709</u>
Operating income	(3,253,328)	3,181,232	6,545,526
Other non-operating revenues and expenses, net, including capital contributions	<u>16,375,687</u>	<u>6,409,590</u>	<u>8,092,648</u>
Net income	13,122,359	9,590,822	14,638,174
Net assets at beginning of year	<u>213,159,624</u>	<u>203,568,802</u>	<u>188,930,628</u>
Net assets at end of year	<u><u>\$226,281,983</u></u>	<u><u>\$213,159,629</u></u>	<u><u>\$203,568,802</u></u>

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Financial Position Summary

Net assets may serve over time as a useful indicator of the Department's financial position. The Department's net assets exceeded liabilities by \$226.3 million at September 30, 2002, a \$13.1 million increase from September 30, 2001. A condensed summary of the Department's net assets at September 30 is shown below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Assets			
Current and other assets	\$111,703,032	\$106,964,302	\$ 98,493,902
Capital assets	269,356,230	271,044,116	269,435,793
Total assets	<u>381,059,262</u>	<u>378,008,418</u>	<u>367,929,695</u>
Liabilities:			
Current and other liabilities	15,242,925	22,040,824	16,805,234
Long-term liabilities	137,534,354	142,807,970	147,555,659
Total liabilities	<u>154,777,297</u>	<u>164,848,794</u>	<u>164,360,893</u>
Net assets:			
Invested in capital assets, net of related debt	122,499,755	117,580,228	102,815,493
Restricted	52,117,417	42,090,133	38,372,764
Unrestricted	51,646,811	53,489,263	62,380,545
Total net assets	<u>\$226,281,983</u>	<u>\$213,159,624</u>	<u>\$203,568,802</u>

The largest portion of the Department's net assets each year (54% at September 30, 2002) represents its investments in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Department uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operation, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Financial Position Summary (continued)

An additional portion of the Department's net assets (23% at September 30, 2002) represents restricted assets that are subject to external restrictions on how they can be used under bond resolution covenants and Passenger Facility Charge regulations. The remaining unrestricted net assets (23% at September 30, 2002) may be used to meet any of the Department's ongoing obligations.

Airline Signatory Rates and Charges

The Department and certain airlines negotiated an Airline-airport Use and Lease agreement effective October 1, 2000 for five years, which in part establishes how the signatory airlines will be assessed rates and charges for the use of PBI. Landing fees and terminal rental rates are calculated for each fiscal year. Signatory airlines receive a 10% rebate of landing fees for landing fees paid in the prior fiscal year.

The Agreement serves as the basis for calculating landing fees and terminal rental rates. All cost associated with operation, maintenance, and debt service of the airfield and terminal are recorded in the respective cost centers. Landed weight and rentable square footage serve as the units for landing fees and terminal rents, respectively. A revenue sharing component of the methodology credits 50% of the prior year's profitability to the two cost centers.

The Department also has the ability under the Agreement to adjust airline rates and charges at any time throughout the year if the Department determines a rate adjustment would result in a 10% or more increase. This insures the Department is in a position to meet all financial requirements of the bond resolution regarding debt service coverage requirements.

Rates and charges have generally declined over the last few years reflecting increased revenues earned by the Department and management's intent to remain competitive with rates as negotiated in the current contract. The recent rate declines have reduced airline revenues somewhat but has benefited management in marketing the airport to new carriers such as jetBlue, Southwest and AirTran.

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Airline Signatory Rates and Charges (continued)

Rates and charges for recent years are as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Landing fee (per 1,000 lbs MGLW)	\$0.7260	\$0.8470	\$1.1230
Average terminal rate (per square foot)	38.90	42.47	44.42
Apron fee rental (per lineal foot)	177.26	165.95	193.22
Loading bridge rental (annual rate)	33,022	36,301	37,639
Airline cost per enplanment	4.39	4.34	5.04

The events of September 11th had significant effects on the airline signatory rates and charges for Fiscal 2003. There have been decreases in some revenue categories, including landing fees (14.8% decrease) and average terminal rates (2.8% decrease).

Revenues

The following table shows the distribution of revenues for the year ended September 30, 2002:

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Revenues (continued)

	2002	Percent of Total	Increase/ (Decrease) from 2001	Percent Increase/ (Decrease) from 2001
Operating:				
Terminal	\$16,603,731	27%	\$ (742,213)	(4)%
Ground transportation	19,100,410	31	(2,429,401)	(11)
Aviation	2,003,528	3	34,517	2
Non-aviation	2,427,159	4	283,829	13
Airside	3,651,549	6	(1,115,239)	(23)
General aviation airports	861,369	1	109,694	15
Total operating revenues	<u>44,647,746</u>	<u>72</u>	<u>(3,858,813)</u>	<u>(8)</u>
Non-operating:				
Passenger facility charges	7,539,529	13	(1,090,165)	(13)
Interest income	5,255,271	9	(2,246,513)	(30)
Grant revenues	1,537,500	3	1,537,500	100
Other revenues	1,933,516	3	1,770,548	1086
Total non-operating revenues	<u>16,265,816</u>	<u>28</u>	<u>(28,630)</u>	<u>-</u>
Total revenues	<u><u>\$60,913,562</u></u>	<u><u>100%</u></u>	<u><u>\$(3,887,443)</u></u>	<u><u>(6)%</u></u>

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Expenses

The following table summarizes expenses for the year ended September 20, 2002:

	2002	Percent of Total	Increase/ (Decrease) from 2001	Percent Increase/ (Decrease) from 2001
Operating:				
Salaries and benefits	\$ 8,140,791	14%	\$ 882,975	12%
Security services	6,935,148	12	1,945,289	39
General/administrative	6,213,147	11	(126,476)	(2)
Fire rescue services	4,589,643	8	283,123	7
Maintenance	3,909,759	7	(250,365)	(6)
Utilities	2,477,537	4	113,081	5
Total operating	<u>32,266,025</u>	<u>56</u>	<u>2,847,627</u>	<u>10</u>
Depreciation	<u>15,635,049</u>	<u>28</u>	<u>(234,597)</u>	<u>(1)</u>
Non-operating:				
Interest expense	7,768,275	14	(2,067,394)	(21)
Bond cost amortization	228,092	2	27,988	14
Other	-	-	(5,085,550)	100
Total non-operating	<u>7,996,367</u>	<u>16</u>	<u>(7,121,956)</u>	<u>(47)</u>
Total expenses	<u>\$55,897,441</u>	<u>100%</u>	<u>\$(4,508,962)</u>	<u>(7)%</u>

Palm Beach County Department of Airports

Management’s Discussion and Analysis (continued)

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the past three years. Cash equivalents are considered cash on hand, bank deposits, and highly liquid investments with original maturity of three months or less.

	2002	2001	2000
Cash flow from operating activities	\$ 7,036,669	\$20,761,710	\$18,027,084
Cash flow from noncapital financing activity	1,537,500	–	–
Cash flow from investing activities	5,283,361	7,336,571	4,984,727
Cash flow from capital and related financing activities	<u>(13,158,121)</u>	<u>(22,072,765)</u>	<u>(19,547,951)</u>
Net increase in cash and cash equivalents	699,409	6,025,516	3,463,860
Cash and cash equivalents at beginning of year	<u>81,122,217</u>	<u>75,096,701</u>	<u>71,632,841</u>
Cash and cash equivalents at end of year	<u><u>\$81,821,626</u></u>	<u><u>\$81,122,217</u></u>	<u><u>\$75,096,701</u></u>

The Department’s available cash and cash equivalents increased from \$81.1 million to \$81.8 million from the period of September 20, 2001 to September 30, 2002. This was accomplished by decreasing capital project expenditures. Capital projects which were related to passenger/airline capacity requirements were not needed and were consequently cancelled. These projects will be revisited when passenger/airline volumes return.

Financial Statements and Reporting Entity

The Department’s financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States. Revenues are recognized when earned and expenses are recognized when incurred. The Department operates the Airports as an enterprise fund of the Palm Beach County. An enterprise fund is used to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges by users of such services. See the notes to the financial statements for a summary of the Department’s significant accounting policies.

The County is a chartered political subdivision of the State of Florida and is granted the power of self-government by the Constitution of the State of Florida and Florida Statutes. The Board of County Commissioners is the legislative and governing body of the County.

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Capital Acquisitions and Construction Activities

During 2002, the Department expended \$13 million on capital activities. During 2002, completed projects totaling \$3.1 were closed from construction-in-progress to their respective capital accounts. The major completed projects were:

Land Acquisition	\$5.2 million
Homeowner soundproofing	\$2.5 million
Terminal flight and baggage information systems	\$2.9 million
Apron and taxiway improvements	\$2.4 million

In general, acquisitions are funded using a variety of financing sources, including Federal Grants, States Grants, Airport revenues, Passenger Facility Charges, debt issuance, and Revenue Bonds. At September 30, 2002 the Department had uncompleted design and construction contracts for improvements totaling approximately \$22.5 million. No new debt or revenue bonds were issued in fiscal 2002, and there are no plans for such issuance in fiscal 2003.

Long Term Debt

The Department had outstanding long term debt of \$137.5 million and \$142.8 million as of September 30, 2002 and 2001. Both amounts are net of any current maturities, unamortized premiums, or unamortized discounts. The following table reflects the debt activities that occurred during Fiscal Year 2002:

	Outstanding September 30, 2001	Paid or Redeemed	Issued	Outstanding September 30, 2002
Series 1992	\$ 59,380,000	\$59,380,000	\$ -	\$ -
Series 2001	83,965,000	-	-	83,965,000
Series 2002	-	-	60,150,000	60,150,000
Series 1989	2,800,000	2,800,000	-	-
Total	<u>\$146,145,000</u>	<u>\$62,180,000</u>	<u>\$60,150,000</u>	144,115,000
Less current maturities				7,635,000
Plus unamortized premium				6,061,294
Less unamortized loss				<u>(5,006,940)</u>
Long term debt payable, net, as of September 30, 2002				<u>\$137,534,354</u>

Palm Beach County Department of Airports

Management's Discussion and Analysis (continued)

Long Term Debt (continued)

During 2002, the Department substantially completed all refinancing of the Series 1991 and 1992 Revenue Bonds. This series of transactions which issued the 2001 and 2002 Revenue Refunding Bonds will result in a present value savings of approximately \$3.3 million.

Additionally the Department executed a redemption of all outstanding debt related to the Series 1989 Airport System Taxable Subordinated Indebtedness. The bonds were called on October 1, 2001 and the outstanding principal balance of \$2,800,000 was paid.

Credit Ratings and Bond Insurance

During 2002, the Department updated its credit ratings with each of the three major rating agencies. On an underlying basis (i.e. uninsured) the Department received the following ratings: Standard and Poor's affirmed a rating of A-, Fitch affirmed an A rating, and Moody's Investors Service affirmed an A3 rating. The Airports ratings remained stable despite 9/11 due to its relatively strong cash position, improving airline competition, competitive airline fees, and diversified customer base. On an insured basis the ratings remained as follows: Moody's, S & P, and Fitch, Aaa, AAA, and AAA.

Passenger Facility Charges

As of September 30, 2002, the Department had collected \$72 million in Passenger Facility Charges (PFC) Revenues, including interest on PFC cash balances, since the inception of the program in April 1, 1994. The Department has spent \$51 million over the same time period.

As of September 30, 2002, the Department was authorized to collect \$94.2 million in PFC revenues. Subsequent to September 30, 2002, the Department received FAA approval to increase the PFC collection amount to \$105.5 million, effective December 13, 2002.

Request for Information

This financial report is designed to provide a general overview of the Department's finances. Questions concerning the information provided in this report can be addressed to Mike Simmons, Airport Fiscal Director, Palm Beach County Department of Airports, Palm Beach International Airport, Building 846, West Palm Beach, Florida, 33406 or email at msimmons@pbia.org.

Palm Beach County Department of Airports

Consolidated Statements of Net Assets

	September 30	
	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,608,808	\$ 41,025,727
Accounts receivable, less allowance for doubtful accounts of \$291,896 and \$496,672 in 2002 and 2001, respectively	1,690,902	1,296,685
Government grants receivable	1,667,194	472,161
Current portion of other receivable	38,424	-
Inventory	866,362	878,638
Other current assets	101,342	-
Total current assets	<u>37,973,032</u>	<u>43,673,211</u>
Restricted assets:		
Cash and cash equivalents	48,212,818	40,096,490
Investments	14,932,353	14,778,295
Interest receivable	239,003	421,151
Accounts receivable, less allowance for doubtful accounts of \$1,160 and \$416 in 2002 and 2001, respectively	411,365	34,952
Total restricted assets	<u>63,795,539</u>	<u>55,330,888</u>
Capital assets:		
Land	116,101,267	110,694,156
Depreciable capital assets, net of accumulated depreciation	148,962,468	154,534,786
Construction in progress	4,292,495	5,815,174
Total capital assets	<u>269,356,230</u>	<u>271,044,116</u>
Other noncurrent assets:		
Deferred bond issuance costs	1,687,121	1,981,676
Other receivable, net of current portion, and discount of \$523,752 and \$600,200 in 2002 and 2001, respectively	1,273,576	1,312,000
Intangible and other assets, net of accumulated amortization of \$613,255 and \$423,578 in 2002 and 2001, respectively	6,973,764	4,666,527
Total other noncurrent assets	<u>9,934,461</u>	<u>7,960,203</u>
Total assets	<u><u>\$381,059,262</u></u>	<u><u>\$378,008,418</u></u>

	September 30	
	2002	2001
Liabilities and net assets		
Current liabilities:		
Accounts and contracts payable	\$ 1,345,609	\$ 2,289,196
Accrued loss on swap termination	–	2,477,800
Compensated absences payable	957,247	910,966
Deferred revenue	1,367,789	1,753,806
Due to State of Florida	1,624,400	1,124,400
Other current liabilities	269,758	243,901
Total current liabilities	<u>5,564,803</u>	<u>8,800,069</u>
Liabilities payable from restricted assets:		
Accounts and contracts payable	963,114	985,944
Security deposits	163,880	158,241
Interest payable on revenue bonds	2,916,128	3,271,570
Current maturities of revenue bonds	7,635,000	8,825,000
Total liabilities payable from restricted assets	<u>11,678,122</u>	<u>13,240,755</u>
Long-term liabilities:		
Loan payable	–	150,758
Revenue bonds payable (less current maturities and net of unamortized premium of \$6,061,294 and \$1,926,490 in 2002 and 2001, respectively, and unamortized loss on refunding of \$(5,006,940) and \$(2,614,278) in 2002 and 2001, respectively)	137,534,354	142,657,212
Total long-term liabilities	<u>137,534,354</u>	<u>142,807,970</u>
Total liabilities	<u>154,777,279</u>	<u>164,848,794</u>
Net assets:		
Invested in capital assets, net of related debt	122,499,755	117,580,228
Restricted:		
Passenger facility charges	20,145,121	15,846,139
Debt service	16,319,038	15,563,866
Renewal and replacement	7,791,300	3,902,767
Operation and maintenance	5,111,820	4,875,312
Capital outlay	2,750,138	1,902,049
	<u>52,117,417</u>	<u>42,090,133</u>
Unrestricted	51,664,811	53,489,263
Total net assets	<u>\$226,281,983</u>	<u>\$213,159,624</u>

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

Palm Beach County Department of Airports

Consolidated Statements of Revenues, Expenses
and Changes in Net Assets

	Year ended September 30	
	2002	2001
Operating revenues:		
Rentals	\$ 17,718,724	\$ 18,041,531
Concessions	22,593,679	25,239,091
Landing fees	2,129,005	3,429,461
Other	2,206,338	1,759,193
Total operating revenues	<u>44,647,746</u>	<u>48,469,276</u>
Operating expenses:		
Employee compensation and benefits	8,140,791	7,257,816
General and administrative	6,213,147	6,339,623
Maintenance	3,909,759	4,160,124
Contracted security services	6,935,148	4,989,859
Contracted fire-rescue services	4,589,643	4,306,520
Utilities	2,477,537	2,364,456
Total operating expenses before depreciation and amortization	<u>32,266,025</u>	<u>29,418,398</u>
Operating income before depreciation and amortization	12,381,721	19,050,878
Depreciation and amortization	15,635,049	15,869,646
Operating (loss) income	<u>(3,253,328)</u>	<u>3,181,232</u>
Nonoperating revenues (expenses):		
Investment income	5,255,271	7,501,784
Passenger facility charges	7,539,529	8,629,694
Operating grants	1,537,500	-
Loss on swap termination	-	(5,082,550)
Interest expense	(7,768,275)	(9,835,669)
Gain on disposal of assets	1,747,300	43,518
Amortization of revenue bond costs	(228,092)	(200,104)
Other revenues	186,216	119,450
Total nonoperating revenues	<u>8,269,449</u>	<u>1,176,123</u>
Capital contributions	8,106,238	5,233,467
Increase in net assets	<u>13,122,359</u>	<u>9,590,822</u>
Net assets at beginning of year	213,159,624	203,568,802
Net assets at end of year	<u>\$226,281,983</u>	<u>\$213,159,624</u>

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

Palm Beach County Department of Airports

Consolidated Statements of Cash Flows

	Year ended September 30	
	2002	2001
Operating activities		
Cash received from customers	\$42,596,738	\$48,735,268
Cash payments to vendors for goods and services	(16,152,841)	(8,559,872)
Cash payments to employees for services	(8,055,513)	(7,207,489)
Cash payments to other funds	(11,537,931)	(12,354,830)
Other receipts	186,216	148,633
Net cash provided by operating activities	<u>7,036,669</u>	<u>20,761,710</u>
Noncapital financing activity		
Operating grant received	1,537,500	-
Net cash provided by noncapital financing activity	<u>1,537,500</u>	<u>-</u>
Capital and related financing activities		
Acquisition and construction of capital assets	(13,002,930)	(17,361,586)
Proceeds from sale of capital assets	1,892,745	54,390
Repayment on loan payable	(150,758)	(199,842)
Proceeds from issuance of revenue bonds	64,096,013	86,822,543
Payment to escrow agent for advance refunding of revenue bonds	(61,791,967)	(83,858,359)
Swap termination fee	(2,477,800)	(3,916,750)
Principal repayment on revenue bonds	(8,825,000)	(5,765,000)
Passenger facility charges received	7,539,529	8,629,694
Receipt of capital grants and reimbursements	7,411,205	5,119,056
Bond issue costs	(692,840)	(901,752)
Interest and fiscal charges paid	(7,156,318)	(10,695,159)
Net cash used for capital and related financing activities	<u>(13,158,121)</u>	<u>(22,072,765)</u>
Investing activities		
Purchase of investments	(11,053,009)	(16,018,311)
Proceeds from sale and maturity of investments	11,614,641	16,512,236
Interest received on investments	4,721,729	6,842,646
Net cash provided by investing activities	<u>5,283,361</u>	<u>7,336,571</u>
Net increase in cash and cash equivalents	699,409	6,025,516
Cash and cash equivalents at beginning of year (including \$40,096,490 and \$35,360,708 in restricted accounts)	<u>81,122,217</u>	<u>75,096,701</u>
Cash and cash equivalents at end of year (including \$48,212,818 and \$40,096,490 in restricted accounts)	<u>\$81,821,626</u>	<u>\$81,122,217</u>

Continued on next page.

Palm Beach County Department of Airports

Consolidated Statements of Cash Flows (continued)

	Year ended September 30	
	2002	2001
Reconciliation of operating income to net cash provided by operating activities		
Operating (loss) income	\$ (3,253,328)	\$ 3,181,232
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,635,049	15,869,646
Provision for doubtful accounts	(204,032)	454,728
Other revenue	186,216	119,450
Changes in net assets and liabilities:		
(Increase) decrease in accounts receivable	(566,598)	382,474
Decrease in inventory	12,276	40,635
Increase in intangible and other assets	(2,598,257)	(1,267,813)
(Decrease) increase in accounts and contracts payable	(966,417)	1,509,811
Increase in compensated absences payable	46,281	40,883
(Decrease) increase in deferred revenues	(1,286,017)	422,826
Increase in other current liabilities	25,857	1,074
Increase in security deposits	5,639	6,764
Total adjustments	10,289,997	17,580,478
Net cash provided by operating activities	\$ 7,036,669	\$20,761,710

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

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements

For the fiscal years ended September 30, 2002 and 2001

1. Significant Accounting Policies

Reporting Entity

Palm Beach County (the County) is a chartered political subdivision of the State of Florida and is granted the power of self-government by the Constitution of the State of Florida and Florida Statutes. The Board of County Commissioners (the Board) is the legislative and governing body of the County.

Pursuant to the general laws of Florida, the County owns the Palm Beach International Airport and three general aviation airports, Palm Beach County Park Airport in Lantana, Palm Beach County Glades Airport in Pahokee and North County General Aviation Airport in Palm Beach Gardens (collectively, the Airports), all operated by the Palm Beach County Department of Airports (the Department of Airports).

Basis of Presentation

The Department of Airports operates the Airports as an enterprise fund of the County. An enterprise fund is used to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges by users of such services. The Board is empowered to establish and fix rates and charges to the various users of airport facilities. Accordingly, the County has entered into agreements with certain airlines using Palm Beach International Airport and various other lease agreements with tenants doing business at the Airports.

The financial statements included in this report represent the consolidated operations of the four Airports.

Basis of Accounting

The accounts of the Department of Airports are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Revenues are recognized when earned and expenses are recognized when incurred.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the Airport are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

Rental revenue includes revenue from terminal fees charged to airlines. Concession revenue includes car rental concessions and parking fees.

The Department of Airports follows all applicable pronouncements of the Governmental Accounting Standards Board (GASB), as well as certain pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Department of Airports has elected not to apply FASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

The Department of Airports considers all highly liquid investments with maturities of three months or less when purchased, as well as its proportionate share of the County's investment pool, to be cash equivalents for purposes of the balance sheet and the statement of cash flows.

Investments

Investments consist of U.S. Government and agency obligations. All investments are stated at fair value, based on the last reported sales price for securities traded on a national exchange. Gain or loss on sales of investments is based on the specific identification method.

Accounts Receivable

Accounts receivable are composed primarily of monthly billings to airlines and concessionaires operating at Palm Beach International Airport for various rentals and other fees due under the Department of Airports operating leases. No collateral is required for accounts receivable.

Inventory

Inventory, consisting mostly of materials and supplies, is stated at the lower of cost or market value, determined on the first-in, first-out basis.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is recorded at cost or, if donated, at fair value at the date of donation. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments which significantly add to the productive capacity or extend the useful life of property and equipment are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets, which are summarized as follows:

Buildings	10-40 years
Improvements other than buildings	5-20 years
Furniture, fixtures and equipment	4-12 years

Depreciation on property, plant and equipment acquired through contributions from developers, customers and other governments is recorded as an expense in the statements of revenues, expenses and changes in net assets.

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as “noise-impacted” surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration (FAA) Noise Abatement Grant Program for reimbursement. The FAA funds approximately 80% of these costs with the remainder financed by the Department of Airports. The FAA retains a continuing interest in the properties equal to its original funding percentage and restricts the use of such properties to purposes which are compatible with noise levels associated with the operation of Airports. The total costs associated with acquiring these parcels of land are approximately \$72,995,000 and \$67,588,000 at September 30, 2002 and 2001, respectively, and is recorded under the caption “land” in the accompanying statements of net assets.

Intangible Assets

The costs of various easement rights are capitalized as intangible assets and are amortized using the straight-line method over their remaining lives, which is determined to be 40 years.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Security Deposits

Security deposits represent cash deposits held by the Department of Airports pursuant to certain operating leases.

Deferred Revenue

Deferred revenue consists of lease payments received from airport tenants in advance of the due date under the operating leases.

Restricted Assets and Reserves

Certain assets are restricted in accordance with the provisions of the Bond Resolution (Resolution) and in accordance with FAA restrictions. Assets restricted under the Resolution are designated primarily for payment of debt service and the retention of the operation and maintenance reserve, all as defined in the Resolution. Assets subject to FAA restrictions total approximately \$2,548,000 and \$689,000 at September 30, 2002 and 2001, respectively, and results from the sale of excess land previously contributed by the FAA and not required for aviation purposes. These assets are restricted until appropriated for FAA approved projects.

Amortization

Bond discount or premium and expenses incurred in connection with the issuance or refunding of revenue bonds were deferred and are being amortized using the interest method over the life of the related debt issue.

Interest

Interest costs are expensed or capitalized in accordance with the provisions of Statements of Financial Accounting Standards No. 34, *Capitalization of Interest Cost*, and No. 62, *Capitalization and Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. The amount of interest cost incurred was \$7,768,275 and \$9,835,669 for the fiscal years ended September 30, 2002 and 2001, respectively, all of which was charged to expense.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Compensated Absences

Department of Airports employees accumulate unused vacation and sick leave within certain limitations. Accumulated vacation and sick leave is payable to employees upon termination or retirement at their pay rate on that date. The Department of Airports accrues unused vacation and sick leave on the statement of net assets as compensated absences payable.

The Department of Airports does not provide any other post-employment benefits to employees.

Passenger Facility Charges

The Department of Airports received approval of the FAA to impose a \$3 Passenger Facility Charge (PFC) for each passenger enplaned at the Airport. Effective December 2002, the Airport is authorized to collect up to \$105,468,840 of PFC revenue to fund construction of pre-approved capital projects. The estimated expiration date on PFC revenue collection is January 2007. The Department of Airports began imposing this charge effective April 1, 1994. For the years ended September 30, 2002 and 2001, the Department of Airports collected \$7,539,529 and \$8,629,694, respectively, of PFCs for a cumulative total of \$65,049,721 and has earned interest on unspent funds of \$6,982,625. Cumulative expenditures amount to \$50,954,140. The net unexpended monies of \$19,758,741 are included in the accompanying financial statements as restricted assets because these funds must be spent on FAA approved capital improvements.

Capital Contributions

Grants from other governmental agencies for the acquisition of property, plant, and equipment are recorded as capital contributions when related costs are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

2. Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of the following at September 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Equity in County pooled cash system	\$70,304,581	\$68,779,843
Deposits with financial institutions	11,515,945	12,341,274
Petty cash	1,100	1,100
Total	<u>\$81,821,626</u>	<u>\$81,122,217</u>
Unrestricted cash and cash equivalents	\$33,608,808	\$41,025,727
Restricted cash and cash equivalents	48,212,818	40,096,490
Total	<u>\$81,821,626</u>	<u>\$81,122,217</u>

The Department of Airports participates in the County's pooled cash system to maximize earnings and facilitate cash management. The County's pooled cash fund is a highly liquid investment pool of approximately \$1.2 billion and \$1.1 billion as of September 30, 2002 and 2001, respectively, of which approximately 85% and 75% are invested in U.S. Government and Agency obligations, which are classified as Category 1 investments. Almost all remaining amounts at September 30, 2002 and 2001 were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer (State Treasurer) and the Florida Local Government Investment Trust. For purposes of categorizing the equity in pooled cash in accordance with the provisions of GASB Statement No. 3 (*Deposits with Financial Institutions, including Repurchase Agreements, and Reverse Repurchase Agreements*), the pooled cash investments in the Local Government Surplus Funds Trust Fund and the Florida Local Government Investment Trust cannot be categorized because they are not evidenced by cash or securities that exist in physical or book entry form. These financial instruments may be subject to credit or market risk. Information quantifying these risks was not available, but management believes the impact to the Department of Airports, if any, would be minimal. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. The equity in the County pooled cash system is available to the Department of Airports on a demand basis.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

2. Cash and Cash Equivalents and Investments (continued)

The deposits with financial institutions were entirely covered by a combination of Federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions which comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer. Qualified public depositories are required to pledge collateral to the State Treasurer with a fair value equal to at least 50% of the average daily balance of all government deposits in excess of any Federal deposit insurance. In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of Federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured in accordance with the provisions of GASB Statement No. 3.

Investments

County ordinance and the Resolution authorize the Department of Airports to invest in obligations of the U.S. Government, U.S. Government Agencies and Instrumentalities, interest-bearing time deposits or savings accounts, the Local Government Surplus Funds Trust Fund and the Florida Local Government Investment Trust. The Department of Airports invested only in permissible securities during the year.

The Department of Airports carries its investments at fair value. At September 30, 2002 and 2001, investments consisted of U.S. Government Agency obligations with a carrying value of \$14,932,353 and \$14,778,295, respectively. The Department of Airports anticipates holding these investments to maturity. These investments are categorized in accordance with GASB Statement No. 3 and are considered to be in Category 1 as investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Investment income at September 30, 2002 and 2001 includes net realized and unrealized gains of approximately \$716,000 and \$535,000, respectively.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

3. Capital Assets

Capital assets consist of the following:

	Balance at October 1, 2001	Additions	Retirements	Transfers	Balance at September 30, 2002
Depreciable capital assets					
Buildings	\$168,416,232	\$ 3,209,911	\$ (357,984)	\$ 458,878	\$171,727,037
Improvements other than buildings	150,498,991	–	(9,643,786)	2,782,925	143,638,130
Furniture, fixtures and equipment	28,322,459	–	(1,056,078)	3,566,783	30,833,164
Total depreciable capital assets	347,237,682	3,209,911	(11,057,848)	6,808,586	346,298,331
Less accumulated depreciation					
Buildings	75,018,860	5,905,422	(245,241)	–	80,679,041
Improvements other than buildings	94,170,961	7,724,362	(9,643,786)	–	92,251,537
Furniture, fixtures and equipment	23,513,075	1,815,586	(1,023,376)	–	24,305,285
Total accumulated depreciation	192,702,896	15,445,370	(10,912,403)	–	197,235,863
Depreciable capital assets, net of accumulated depreciation	\$154,534,786	\$(12,235,459)	\$ (145,445)	\$ 6,808,586	\$148,962,468
Nondepreciable capital assets					
Land	\$110,694,156	\$ –	\$ –	\$ 5,407,111	\$116,101,267
Construction in progress	5,815,174	10,693,018	–	(12,215,697)	4,292,495

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

3. Capital Assets (continued)

	Balance at October 1, 2000	Additions	Retirements	Transfers	Balance at September 30, 2001
Depreciable capital assets					
Buildings	\$166,085,120	\$ —	\$ —	\$ 2,331,112	\$168,416,232
Improvements other than buildings	149,849,347	—	(43,380)	693,024	150,498,991
Furniture, fixtures and equipment	27,499,482	997,510	(282,793)	108,260	28,322,459
Total depreciable capital assets	343,433,949	997,510	(326,173)	3,132,396	347,237,682
Less accumulated depreciation					
Buildings	69,246,502	5,772,358	—	—	75,018,860
Improvements other than buildings	86,063,618	8,150,723	(43,380)	—	94,170,961
Furniture, fixtures and equipment	21,965,686	1,819,375	(271,986)	—	23,513,075
Total accumulated depreciation	177,275,806	15,742,456	(315,366)	—	192,702,896
Depreciable capital assets, net of accumulated depreciation	\$166,158,143	\$(14,744,946)	\$ (10,807)	\$ 3,132,396	\$154,534,786
Nondepreciable capital assets					
Land	\$102,334,299	\$ —	\$ —	\$ 8,359,857	\$110,694,156
Construction in progress	943,351	16,364,076	—	(11,492,253)	5,815,174

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

4. Leases

The Department of Airports leases a major portion of its property to airlines and concessionaires. Certain of the concessionaire leases provide for minimum rentals plus a contingency portion specified as a percentage of the tenants' gross revenues. Contingent rental income under such arrangements amounted to approximately \$2,645,000 and \$2,736,000 for the years ended September 30, 2002 and 2001, respectively. All Department of Airports' leases are operating leases.

Minimum future rentals, exclusive of contingent rentals under such leases, are approximately:

Year ending September 30,	
2003	\$ 29,043,000
2004	19,042,000
2005	18,876,000
2006	4,935,000
2007	4,847,000
Thereafter	38,601,000
	<u>\$115,344,000</u>

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2002 and 2001, is as follows:

	<u>2002</u>	<u>2001</u>
Buildings	\$136,996,537	\$133,737,339
Less: accumulated depreciation	61,017,365	56,308,177
	75,979,172	77,429,162
Land	1,867,182	1,867,182
Property held for lease, net	\$ 77,846,354	\$ 79,296,344

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

5. Due to State of Florida

The Department of Airports entered into joint participation agreements with the Florida Department of Transportation (FDOT) and received State financial assistance for the acquisition of land for the North County Airport. Pursuant to the terms of the Joint Participation Agreements and Florida Statutes, the FDOT advanced up to 75% of the cost of the land acquisition and is to be reimbursed for all amounts in excess of 50% of eligible project costs which are not funded by the Federal Government. Reimbursements are due to the FDOT when Federal funds are received or within ten years after the date of the land acquisition, whichever is earlier. At September 30, 2002 and 2001, the amount to be reimbursed to the FDOT related to the advanced funds is \$1,624,400 and \$1,124,400, respectively. Because the ten-year period has expired, management of the Airport is currently in negotiations with the FDOT regarding the ultimate disposition of this advance.

6. Revenue Bonds Payable

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2002 and 2001, is as follows

	<u>2002</u>	<u>2001</u>
Series 2002 Revenue Refunding Bonds due in annual installments of \$13,645,000 to \$16,500,000 beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semiannually on October 1 and April 1	\$60,150,000	\$ —
Series 2001 Revenue Refunding Bonds due in annual installments of \$7,635,000 to \$11,215,000 through October 1, 2010, with interest from 4.0% to 5.5% payable semiannually on October 1 and April 1	83,965,000	83,965,000
Series 1992 Revenue Refunding Bonds due in annual installments of \$4,575,000 to \$4,815,000 through October 1, 1999 and \$13,345,000 to \$16,425,000 due from October 1, 2011 through October 1, 2014, with interest from 2.8% to 6.375% payable semiannually on October 1 and April 1	—	59,380,000
Series 1991 Revenue Refunding Term bonds due in annual installments of \$490,000 to \$11,735,000 through October 1, 2010, with interest from 7.5% to 7.75% payable semiannually on October 1 and April 1	—	6,025,000

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

6. Revenue Bonds Payable (continued)

	<u>2002</u>	<u>2001</u>
Series 1989 Taxable Subordinated Indebtedness due October 1, 2010, with interest at 9.5% payable semi-annually on April 1 and October 1. Mandatory sinking fund redemptions are required in annual installments of \$135,000 to \$410,000.	\$ —	\$ 2,800,000
	144,115,000	152,170,000
Less: current portion	7,635,000	8,825,000
	136,480,000	143,345,000
Net unamortized premium	6,061,294	1,926,490
Unamortized loss on refunding	(5,006,940)	(2,614,278)
Long-term portion	\$137,534,354	\$142,657,212

Series 2002

Series 2002, \$60,150,000 Airport System Revenue Refunding Bonds, dated July 1, 2002; proceeds were used for the purpose of refunding the \$90,690,000 Airport System Revenue Refunding Bonds, Series 1992, paying the swap termination fee related to the Series 2002 bonds, and paying the issuance costs of the Series 2002 bonds. The Series 2002 bonds are not subject to redemption prior to maturity.

This advance refunding resulted in a loss of approximately \$2.9 million that is being deferred and amortized over the life of the new bonds. However, the Department of Airports reduced its aggregate debt service payments by approximately \$3.7 million over the next 12 years and obtained an economic loss (difference between the present values of the old and new debt service payments) of approximately \$900,000.

Series 2001

Series 2001, \$83,965,000 Airport System Revenue Refunding Bonds, dated July 1, 2001; proceeds were used for the purpose of refunding the \$94,815,000 Airport System Revenue Refunding Term Bonds, Series 1991 (except for the sinking fund installment due October 1, 2001), paying the swap termination fee related to the Series 2001 bonds, and paying the issuance costs of the Series 2001 bonds. The Series 2001 bonds are not subject to redemption prior to maturity.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

6. Revenue Bonds Payable (continued)

This advance refunding resulted in a loss of approximately \$2.7 million that is being deferred and amortized over the life of the new bonds. However, the Department of Airports reduced its aggregate debt service payments by approximately \$7.1 million over the next 9 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$4.2 million.

Series 1992

Series 1992, \$90,690,000 Airport System Revenue Refunding Bonds, dated February 1, 1992, consisted of \$31,310,000 of Serial bonds and \$59,380,000 of Term Bonds and were issued for the purpose of redeeming \$87,235,000 Airport System Revenue Bonds, Series 1984A and Series 1984B on March 6, 1992 and to pay the issuance costs of the Series 1992 bonds.

The Series 1992 bonds were refunded by the Series 2002, \$60,150,000 Airport System Revenue Refunding Bonds in July 2002 and were redeemed on October 1, 2002.

Series 1991

Series 1991, \$94,815,000 Airport System Revenue Refunding Term Bonds, dated September 30, 1991; proceeds were applied to the early redemption on October 1, 1991 of \$94,815,000 of Series 1984A Florida Airport System Revenue Bonds.

All of the Series 1991 bonds, except for the sinking fund installment due October 1, 2001 in the principal amount of \$6,025,000, were refunded by the Series 2001 bonds in July 2001 and were redeemed on October 1, 2001.

Series 1989

Series 1989, \$3,850,000 Airport System Taxable Subordinated Indebtedness, dated June 1, 1989, consisted of Term Bonds and were issued to pay the costs associated with \$94,815,000 Refunding Escrow Deposits (REDs) to provide for redemption of Airport System Revenue Bonds, Series 1984A on October 1, 1991, including the issuance costs of the Series 1989 bonds.

The bonds were called for redemption on October 1, 2001 and the outstanding principal balance of \$2,800,000 was paid.

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

6. Revenue Bonds Payable (continued)

A summary of changes in long term liabilities for the years ended September 30, 2002 and 2001 is as follows:

	Balance at October 1, 2001	Issued	Retired	Balance at September 30, 2002	Due Within One Year
Loan payable	\$ 150,758	\$ —	\$ 150,758	\$ —	\$ —
Revenue refunding bonds:					
Series 2002	—	60,150,000	—	60,150,000	—
Series 2001	83,965,000	—	—	83,965,000	7,635,000
Series 1992	59,380,000	—	59,380,000	—	—
Series 1991	6,025,000	—	6,025,000	—	—
Taxable subordinated indebtedness:					
Series 1989	2,800,000	—	2,800,000	—	—
	<u>\$152,320,758</u>	<u>\$60,150,000</u>	<u>\$68,675,758</u>	144,115,000	<u>\$7,635,000</u>
Less current maturities				<u>(7,635,000)</u>	
Long-term portion				136,480,000	
Add unamortized premium				6,061,294	
Less unamortized loss on refunding				<u>(5,006,940)</u>	
Total				<u>\$137,534,354</u>	

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

6. Revenue Bonds Payable (continued)

	Balance at October 1, 2000	Issued	Retired	Balance at September 30, 2001	Due Within One Year
Loan payable	\$ 350,600	\$ —	\$ 199,842	\$ 150,758	\$ 150,758
Revenue refunding bonds:					
Series 2001	—	83,965,000	—	83,965,000	—
Series 1992	59,380,000	—	—	59,380,000	—
Series 1991	91,495,000	—	85,470,000	6,025,000	6,025,000
Taxable subordinated indebtedness:					
Series 1989	2,965,000	—	165,000	2,800,000	2,800,000
	<u>\$154,190,600</u>	<u>\$83,965,000</u>	<u>\$85,834,842</u>	<u>152,320,758</u>	<u>\$8,975,758</u>
Less current maturities				(8,975,758)	
Long-term portion				143,345,000	
Add unamortized premium				1,926,490	
Less unamortized loss on refunding				(2,614,278)	
Total				<u>\$142,657,212</u>	

The annual debt service requirements for all outstanding bonds are as follows:

Year ending September 30,	Principal	Interest	Total
2003	\$ 7,635,000	\$ 6,467,605	\$ 14,102,605
2004	8,010,000	6,941,136	14,951,136
2005	8,410,000	6,530,636	14,940,636
2006	8,830,000	6,077,561	14,907,561
2007	9,315,000	5,648,436	14,963,436
2008-2012	55,410,000	20,911,345	76,321,345
2013-2014	46,505,000	4,122,607	50,627,607
	<u>\$144,115,000</u>	<u>\$56,699,326</u>	<u>\$200,814,326</u>

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

7. Interest Rate Swap Agreements

Under the interest rate swap agreement executed between the County and Merrill Lynch Capital Services, Inc. (MLCS) for the forward issuance of \$83,965,000 Palm Beach County, Florida, Airport System Revenue Refunding Bonds, Series 2001 and \$60,150,000 Palm Beach County, Florida, Airport System Revenue Refunding Bonds, Series 2002, the Department of Airports received a lump-sum payment from MLCS of \$350,600 in February 1998 to pay costs of issuance related to the Series 2001 and Series 2002 bonds. The Department of Airports repaid \$199,842 with interest at 6.22% in July 2001 and the remaining \$150,758 with interest at 6.38% in July 2002.

During the year ended September 30, 2000, the County amended its agreement with MLCS in the form of an option, whereby, upon the payment of \$2,950,000 to the County, MLCS would have the right to cancel the swap agreement related to the \$60,150,000 Palm Beach County, Florida, Airport System Revenue Refunding Bonds, Series 2002. The payment to the County was based upon the movements of taxable, tax-exempt and U.S. Treasury securities and the time remaining on the original swap contract.

In May 2001, the County entered into termination agreements with MLCS to terminate its interest rate swap agreements. On July 3, 2001 the Department of Airports paid \$3,916,750 to terminate the agreement related to the Series 2001 bonds. In addition, the Department of Airports accrued the termination payment of \$2,477,800 due and paid on July 3, 2002 related to the Series 2002 bonds. Furthermore, in conjunction with the termination of the swap agreement related to the Series 2002 bonds, MLCS has agreed to pay the Department of Airports \$76,488 on each October 1 and April 1 beginning October 1, 2002 and ending October 1, 2014. These future payments were discounted at 5.75% and the net amount of \$1,312,000 (payments to be received totaling \$1,912,200 less discount of \$600,200) was recorded as a noncurrent receivable at September 30, 2001 and a reduction of the loss on swap termination. At September 30, 2002 the net amount receivable was \$1,312,000 (net of discount of \$523,752 and accrued interest of \$76,448).

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

8. Defined Benefit Pension Plan

Plan Description

All regular full-time employees of the Department of Airports are required to participate in the Florida Retirement System (the System) administered by the Florida Department of Management Services, Division of Retirement. The System is a cost-sharing, multiple-employer, defined benefit public employee retirement system that provides retirement, death and disability benefits to plan members and beneficiaries. Pension benefits of the System are established by Florida Statutes, Chapter 121, and may be amended by the Florida Legislature.

The System issued a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Florida Department of Management Services, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, Florida 32399-1560 or by calling 1-850-488-5706.

Funding Policy

Plan members are not required to contribute to the System. The Department of Airports is required to contribute at an actuarially determined rate, which is presently 5.76% of annual covered payroll. The contribution requirement for plan members and participating governments is established by State Statute. The Department of Airports' contributions to the System for the years ended September 30, 2002, 2001 and 2000 were approximately \$433,000, \$446,000 and \$522,000, respectively, and were equal to the required contributions for each year.

9. Related Party Transactions

The Department of Airports reimburses the General Fund of Palm Beach County for an allocated portion of certain support department costs which include such services as legal, administrative, fiscal, engineering, purchasing, personnel, internal audit and communication costs. The Department of Airports is also charged for the cost of services provided by the Motor Pool, Casualty Self-Insurance, Workers' Compensation and Data Processing Internal Service Funds of the County. The total cost for the above services was approximately \$1,647,000 and \$3,165,000 for the years ended September 30, 2002 and 2001, respectively. In addition, the Department of Airports also pays solid waste disposal fees to the Solid Waste Authority of Palm Beach County, a dependent special district and component unit of Palm Beach County, Florida. Fees paid to the

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

9. Related Party Transactions (continued)

Solid Waste Authority for the years ended September 30, 2002 and 2001 totaled approximately \$173,000 each year. At September 30, 2002 and 2001, there were no amounts receivable from other funds and departments of Palm Beach County and \$73,503 and \$62,998, respectively, was payable to other County funds and departments.

The Department of Airports also contracts directly with the Palm Beach County Sheriff's Department for security services at Palm Beach International Airport. The cost of these services was approximately \$5,117,000 and \$4,834,000 for the years ended September 30, 2002 and 2001, respectively. The Department of Airports also contracts with the Fire-Rescue Department for fire-rescue services at Palm Beach International Airport. The cost of these services was approximately \$4,617,000 and \$4,307,000 for the years ended September 30, 2002 and 2001, respectively.

10. Major Customers

A significant portion of the Department of Airports' earnings and revenues are directly or indirectly attributed to the activity of a few major airlines operating out of Palm Beach International Airport.

The Department of Airports' earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations at Palm Beach International Airport and should the Department of Airports be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers.

Major airlines, based on this criteria are as follows:

<u>Airline</u>	<u>Percent of Activity Based Upon Enplaned Passengers</u>	
	<u>Year ended September 30</u>	
	<u>2002</u>	<u>2001</u>
Delta Airlines, Inc.	36.05%	34.07%
USAir, Inc.	17.82	24.56
Continental Airlines, Inc.	12.88	12.88
Southwest Airlines Company	10.52	6.21
Jet Blue Airways Corporation	6.95	3.22
American Airlines, Inc.	4.47	4.38
Others	11.31	14.68
	<u>100.00%</u>	<u>100.00%</u>

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

Litigation

The Department of Airports is involved in various lawsuits arising in the ordinary course of operations. Although the outcome of these matters is not presently determinable, it is the opinion of management of the Department of Airports, based upon consultation with legal counsel, that the outcome of these lawsuits will not materially affect the financial position of the Department of Airports.

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the State of Florida and the Federal Aviation Administration. Any disallowed claims, including amounts already received, might constitute a liability of the Department of Airports for the return of those funds.

Insurance

The Department of Airports participates in the county-wide self-insurance programs for Casualty Insurance, Health Insurance and Workers' Compensation Insurance. While each of these programs is subject to potential losses in excess of the amounts that have been accrued and funded as of September 30, 2002 and 2001, management believes it is unlikely that the amounts of such potential losses, if any, would be material. In addition, the Department of Airports also has a commercial policy that provides insurance in the event of a disaster.

Contract Commitments

The Department of Airports has several uncompleted design and construction contracts for improvements to the airport system. At September 30, 2002, the remaining commitment on these uncompleted contracts was \$22,533,471, which is summarized as follows:

<u>Contract Amount</u>	<u>Approved Payments</u>	<u>Retainage Payable</u>	<u>Remaining Contract Commitment</u>
<u>\$43,838,884</u>	<u>\$20,956,571</u>	<u>\$348,842</u>	<u>\$22,533,471</u>

Palm Beach County Department of Airports

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

In addition, in December 2002, the Department of Airports finalized a contract to purchase property for \$14,500,000 and simultaneously entered into a related lease agreement.

12. Accounting Change

Effective October 1, 2001, the Airport adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement Nos. 34 and 37 changed the reporting model for local governments and GASB Statement No. 38 modified certain note disclosure requirements.

As a result of this change, the Airport’s operations are being accounted for as an enterprise fund as defined in Note 1. Following are the significant changes in presentation required by implementation of these Statements:

- Presentation of Management’s Discussion and Analysis (MD&A) as Required Supplementary Information (RSI);
- Required financial statements to include:
 - Statement of net assets to replace the current balance sheet;
 - Statement of revenues, expenses and changes in net assets to replace the current statement of changes in revenues, expenses and changes in retained earnings; and
 - Statement of cash flows.

In addition, the 2001 fund equity section of the balance sheet was restated to combine contributed capital and retained earnings into net assets and separate the total net assets into the required components of invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. In total the previous fund equity section is equal to the restated net assets section.

Other Financial Information

Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments

September 30, 2002

Description	Par Amount	Cost	Fair Value
Revenue fund:			
Petty cash		\$ 1,100	\$ 1,100
Cash and cash equivalents:		5,919,432	5,919,432
Equity in pooled cash (2)		<u>\$ 5,920,532</u>	<u>\$ 5,920,532</u>
Renewal and replacement fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		<u>\$ 8,088,307</u>	<u>\$ 8,088,307</u>
Debt service fund—2002 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 80,565	\$ 80,565
Bank of America – money market account (1)		9,711,542	9,711,542
		<u>\$ 9,792,107</u>	<u>\$ 9,792,107</u>
Debt service fund—2001 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 102,241	\$ 102,241
Bank of America – money market account (1)		866,422	866,422
		<u>\$ 968,663</u>	<u>\$ 968,663</u>
Debt service fund—debt service reserve account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 57	\$ 57
Bank of America – money market account (1)		937,981	937,981
U.S. Government and Agencies:			
FNMA, 6.1%, due 10/21/02 (3)	\$ 500,000	491,655	501,250
FHLMC, 4.5%, due 08/15/04 (3)	5,060,000	5,243,369	5,295,948
FHLMC, 5.125%, due 10/15/08 (3)	8,415,000	8,060,880	9,135,156
		<u>\$14,733,942</u>	<u>\$15,870,392</u>

Continued on next page.

Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments (continued)

September 30, 2002

Description	Par Amount	Cost	Fair Value
Restricted assets fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 2,548,237	\$ 2,548,237
Improvement and development fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$32,963,975	\$32,963,975
Passenger facility charge fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$19,782,328	\$19,782,328
Noise abatement and mitigation fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 819,437	\$ 819,437

Notes:

- (1) Held on deposit or as safekeeping agent by Bank of America, West Palm Beach, Florida, with U.S. Bank, as Trustee.
- (2) Investment represents amounts on deposit in the Palm Beach County pooled cash system. As of September 30, 2002, approximately 85% of funds held in this pooled system were invested in U.S. Government and Agency obligations and virtually all of the remaining funds were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer and the Florida Local Government Investment Trust.
- (3) Held on deposit or as safekeeping agent by U.S. Bank.

Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments

September 30, 2001

Description	Par Amount	Cost	Fair Value
Revenue fund:			
Petty cash		\$ 1,100	\$ 1,100
Cash and cash equivalents:		6,140,853	6,140,853
Equity in pooled cash (2)		<u>6,141,953</u>	<u>6,141,953</u>
Renewal and replacement fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		<u>\$ 4,821,210</u>	<u>\$ 4,821,210</u>
Debt service fund—2001 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 71,214	\$ 71,214
Bank of America – money market account (1)		<u>1,016,128</u>	<u>1,016,128</u>
		<u>\$ 1,087,342</u>	<u>\$ 1,087,342</u>
Debt service fund—1992 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 21,345	\$ 21,345
Bank of America – money market account (1)		<u>1,879,077</u>	<u>1,879,077</u>
		<u>\$ 1,900,422</u>	<u>\$ 1,900,422</u>
Debt service fund—1991 refunding account:			
Cash and cash equivalents:			
Bank of America – money market account (1)		<u>\$ 6,338,270</u>	<u>\$ 6,338,270</u>
Debt service fund—debt service reserve account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 57	\$ 57
Bank of America – money market account (1)		<u>148,931</u>	<u>148,931</u>
U.S. Government and Agencies:			
FNMA, 6.1%, due 10/21/02 (3)	\$ 500,000	491,655	517,150
FHLMC, 5.125%, due 10/15/08 (3)	8,415,000	8,060,880	8,437,720
FHLB, 7.74%, due 10/02/01 (3)	5,360,000	<u>5,366,373</u>	<u>5,360,536</u>
		<u>\$14,067,896</u>	<u>\$14,464,394</u>

Continued on next page.

Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments (continued)

September 30, 2001

Description	Par Amount	Cost	Fair Value
Subordinated indebtedness-debt service fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 19,096	\$ 19,096
Bank of America – money market account (3)		2,949,072	2,949,072
First Union National Bank – money market account (3)		9,796	9,796
		<u>\$ 2,977,964</u>	<u>\$ 2,977,964</u>
Subordinated indebtedness-debt service revenue fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 2,012	\$ 2,012
U.S. Government and agencies:			
FHLB, 5.29%, due 01/27/06 (3)	\$445,000	444,368	462,889
		<u>\$ 446,380</u>	<u>\$ 464,901</u>
Restricted assets fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 688,700	\$ 688,700
Improvement and development fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$39,917,326	\$39,917,326
Passenger facility charge fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$15,846,139	\$15,846,139
Noise abatement and mitigation fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 1,251,891	\$ 1,251,891

Notes:

- (1) Held on deposit or as safekeeping agent by Bank of America, N.A., West Palm Beach, Florida, with U.S. Bank, as Trustee.
- (2) Investment represents amounts on deposit in the Palm Beach County pooled cash system. As of September 30, 2001, approximately 75% of funds held in this pooled system were invested in U.S. Government and Agency obligations and virtually all of the remaining funds were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer and the Florida Local Government Investment Trust.
- (3) Held on deposit or as safekeeping agent by Wachovia National Bank, Florida.

Palm Beach County Department of Airports
 Schedule of Cash Receipts and Disbursements by Fund and Account

For the year ended September 30, 2002

	Total	Revenue Fund	Renewal and Replacement Fund	Debt Service Fund				Debt Service Reserve Account
				2002 Debt Service Refunding	2001 Debt Service Refunding	1991 Debt Service Refunding	1992 Debt Service Refunding	
Cash and investments on deposit, September 30, 2001	\$ 95,876,555	\$ 6,141,952	\$ 4,821,210	\$ -	\$ 1,087,343	\$ 6,338,269	\$ 1,900,422	\$ 14,453,325
Cash receipts:								
Operating receipts	53,370,482	44,123,494	-	-	-	-	-	-
Florida state sales tax	1,907,864	1,907,864	-	-	-	-	-	-
Interest collected on investments	5,364,594	404,212	416,198	4,015	57,904	2,858	8,768	1,610,319
Proceeds from grants	6,638,796	1,537,500	457,663	-	-	-	-	-
Proceeds from sale of bonds	64,096,014	-	-	64,096,014	-	-	-	-
Other receipts	289,549	87,350	156,670	19,215	5,991	-	-	-
Transfers from:								
Passenger facility charge fund	4,277,471	-	1,631,686	-	-	-	-	-
Operations fund	25,348,442	-	4,500,000	863,768	11,604,460	-	2,830,214	-
Capital projects fund	414,171	414,171	-	-	-	-	-	-
Debt service fund — debt service reserve account	177,252	87,252	-	90,000	-	-	-	-
Debt service fund	1,069,823	-	-	967,399	86,424	-	16,000	-
Debt service J.I. fund	525,057	525,057	-	-	-	-	-	-
Restricted assets fund	74,572	74,572	-	-	-	-	-	-
Improvement and development fund	11,174,304	11,050,973	-	-	-	-	-	-
Total cash receipts	174,728,391	60,212,445	7,162,217	66,040,411	11,754,779	2,858	2,854,982	1,610,319

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the year ended September 30, 2002

	Debt Service S.I. Fund		Restricted Assets Fund	Improvement and Development Fund	Passenger Facility Charge Fund	Noise Abatement and Mitigation Fund
	S.I. Debt Service	Reserve				
Cash and investments on deposit, September 30, 2001	\$2,977,964	\$452,014	\$ 688,700	\$39,917,326	\$15,846,139	\$1,251,891
Cash receipts:						
Operating receipts	-	-	1,858,761	17,205	7,153,150	217,872
Florida state sales tax	-	-	-	-	-	-
Interest collected on investments	477	27,602	75,348	1,756,780	937,179	62,934
Proceeds from grants	-	-	-	1,175,529	-	3,468,104
Proceeds from sale of bonds	-	-	-	-	-	-
Other receipts	-	-	-	-	-	20,323
Transfers from:						
Passenger facility charge fund	-	-	-	-	-	2,645,785
Operations fund	-	-	-	5,550,000	-	-
Capital projects fund	-	-	-	-	-	-
Debt service fund – debt service reserve account	-	-	-	-	-	-
Debt service fund	-	-	-	-	-	-
Restricted assets fund	-	-	-	-	-	-
Improvement and development fund	-	-	-	-	123,331	-
Total cash receipts	477	27,602	1,934,109	8,499,514	8,213,660	6,415,018

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the year ended September 30, 2002

	Total	Revenue Fund	Renewal and Replacement Fund	Debt Service Fund						
				2002 Debt Service Refunding	2001 Debt Service Refunding	1991 Debt Service Refunding	1992 Debt Service Refunding	Debt Service Reserve Account		
Cash disbursements:										
Operating expenses	\$ 33,128,240	\$33,124,079	\$ -	\$ -	\$ 1,631	\$ -	\$ -	\$ 2,530	\$ -	
Capital expenditures	14,606,981	-	3,480,949	-	-	-	-	-	-	
Bond interest expense	7,196,562	-	-	-	3,048,384	229,703	-	3,785,475	-	
Bond issue costs	559,058	-	-	559,058	-	-	-	-	-	
Bond discount	300,750	-	-	300,750	-	-	-	-	-	
Unamortized loss or redemption	2,088,960	-	-	2,088,960	-	-	-	-	-	
Refund of security deposits	56,710	56,710	-	-	-	-	-	-	-	
Florida state sales tax	1,904,634	1,904,634	-	-	-	-	-	-	-	
Matured bonds/interest	8,825,000	-	-	-	-	6,025,000	-	-	-	
Bonds called	62,122,980	-	-	62,122,980	-	-	-	-	-	
Transfers to:										
Passenger facility charge fund	123,331	-	-	-	-	-	-	-	-	
Operations fund	12,152,025	-	414,171	-	-	-	-	-	87,252	
Improvement and development fund	5,550,000	5,550,000	-	-	-	-	-	-	-	
Debt service account	2,846,214	2,830,214	-	-	-	-	-	-	16,000	
Renewal and replacement fund	6,131,686	4,500,000	-	-	-	-	-	-	-	
Debt service fund series 2002	1,921,167	863,768	-	-	-	-	-	967,399	90,000	
Debt service fund series 2001	11,690,884	11,604,460	-	-	-	86,424	-	-	-	
Noise abatement and mitigation fund	2,645,785	-	-	-	-	-	-	-	-	
Total cash disbursements	173,850,967	60,433,865	3,895,120	65,071,748	3,050,015	6,341,127	4,755,404	193,252		
Cash and investments on deposit, September 30, 2002	\$ 96,753,979	\$ 5,920,532	\$ 8,088,307	\$ 968,663	\$ 9,792,107	\$ -	\$ -	\$ -	\$ 15,870,392	

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the year ended September 30, 2002

	Debt Service S.I. Fund		Restricted Assets Fund	Improvement and Development Fund	Passenger Facility Charge Fund	Noise Abatement and Mitigation Fund
	S.I. Debt Service	S.I. Debt Service Reserve				
Cash disbursements:						
Operating expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital expenditures	-	-	-	4,278,560	-	6,847,472
Bond interest expense	133,000	-	-	-	-	-
Refund of security deposits	-	-	-	-	-	-
Florida state sales tax	-	-	-	-	-	-
Matured bonds/interest	2,800,000	-	-	-	-	-
Transfers to:						
Passenger facility charge fund	-	-	-	123,331	-	-
Operations fund	45,441	479,616	74,572	11,050,973	-	-
Improvement and development fund	-	-	-	-	-	-
Debt service account	-	-	-	-	-	-
Renewal and replacement fund	-	-	-	-	1,631,686	-
Noise abatement and mitigation fund	-	-	-	-	2,645,785	-
Total cash disbursements	2,978,441	479,616	74,572	15,452,864	4,277,471	6,847,472
Cash and investments on deposit, September 30, 2002	\$ -	\$ -	\$2,548,237	\$32,963,976	\$19,782,328	\$ 819,437

Note: The schedule herein has been prepared on a cash basis as required by the Resolution and does not reflect the adjustments which have been recorded to the accompanying financial statements necessary to amortize premiums or accrete discounts which are inherent in the purchase price of fixed rate investments.

Palm Beach County Department of Airports
 Schedule of Cash Receipts and Disbursements by Fund and Account

For the year ended September 30, 2001

	Total	Revenue Fund	Renewal and Replacement Fund	Debt Service Fund			Debt Service Reserve Account
				2001 Debt Service Refunding	1991 Debt Service Refunding	1992 Debt Service Refunding	
Cash and investments on deposit, September 30, 2000	\$ 89,851,038	\$ 6,360,731	\$4,242,472	\$ -	\$9,325,250	\$1,927,021	\$14,759,515
Cash receipts:							
Operating receipts	56,514,302	47,561,339	-	-	-	-	-
Florida state sales tax	1,815,189	1,815,189	-	-	-	-	-
Interest collected on investments	8,858,886	624,620	466,996	13,320	175,660	40,063	1,156,827
Proceeds from grants	5,119,057	-	569,880	-	-	-	-
Proceeds from maturity of investment	8,862,872	-	-	-	-	-	-
Proceeds from sale of bonds	86,952,776	-	-	86,952,776	-	-	8,415,000
Merrill Lynch Loan	321,464	-	-	-	-	-	-
Other receipts	365,748	11,414	354,334	-	-	-	-
Transfers from:							
Passenger facility charge fund	1,068,630	-	290,814	-	-	-	-
Noise abatement & mitigation fund	3,265,901	-	-	-	-	-	-
S.I. - debt service reserve fund	21,822	-	-	-	-	-	-
Operations fund	33,637,730	-	2,000,000	993,521	10,845,659	3,734,783	-
Capital projects fund	466,996	466,996	-	-	-	-	-
Debt service fund - debt service reserve account	1,437,228	1,137,228	-	300,000	-	-	-
Debt service fund	1,575,173	-	-	1,575,173	-	-	-
Restricted assets fund	59,445	59,445	-	-	-	-	-
Improvement and development fund	14,307,441	11,687,441	-	-	-	-	-
Total cash receipts	224,650,660	63,363,672	3,682,024	89,834,790	11,021,319	3,774,846	9,571,827

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the year ended September 30, 2001

	Merrill Lynch Loan	Debt Service S.I. Fund 1989 S.I. Debt Service	1989 S.I. Debt Service Reserve	Restricted Assets Fund	Improvement and Development Fund	Passenger Facility Charge Fund	Noise Abatement and Mitigation Fund
Cash and investments on deposit, September 30, 2000	\$ 34,752	\$ 312,079	\$450,000	\$664,700	\$38,287,543	\$10,493,055	\$2,993,920
Cash receipts:							
Operating receipts	-	-	-	24,000	8,860	8,629,694	290,409
Florida state sales tax	-	-	-	-	-	-	-
Interest collected on investments	2,314	49,134	38,853	59,445	4,840,635	1,285,961	105,058
Proceeds from grants	-	-	-	-	325,448	-	4,223,729
Proceeds from maturity of investment	-	-	447,872	-	-	-	-
Proceeds from sale of bonds	-	-	-	-	-	-	-
Merrill Lynch loan	321,464	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Transfers from:							
Passenger facility charge fund	-	-	-	-	777,816	-	-
Noise abatement & mitigation fund	-	-	-	-	-	-	3,265,901
S.I. - debt service reserve fund	-	21,822	-	-	-	-	-
Operations fund	-	413,767	-	-	15,650,000	-	-
Capital projects fund	-	-	-	-	-	-	-
Debt service fund - debt service reserve account	-	-	-	-	-	-	-
Debt service fund	-	-	-	-	-	-	-
Restricted assets fund	-	-	-	-	-	-	-
Improvement and development fund	-	2,620,000	-	-	-	-	-
Total cash receipts	323,778	3,104,723	486,725	83,445	21,602,759	9,915,655	7,885,097

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the year ended September 30, 2001

	Total	Revenue Fund	Renewal and Replacement Fund	Debt Service Fund			
				2001 Debt Service Refunding	1991 Debt Service Refunding	1992 Debt Service Refunding	Debt Service Reserve Account
Cash disbursements:							
Operating expenses	\$ 28,138,818	\$ 28,122,848	\$ -	\$ -	\$ -	\$ 15,970	\$ -
Capital expenditures	17,928,951	-	2,636,290	-	-	-	-
Bond interest expense	10,869,860	-	-	(22,580)	6,833,127	3,785,475	-
Bond issue costs	5,169,102	-	-	4,818,502	-	-	-
Bond discount	130,232	-	-	130,232	-	-	-
Unamortized loss on bond redemption	4,165,264	-	-	4,165,264	-	-	-
Refund of security deposits	4,650	4,650	-	-	-	-	-
Florida state sales tax	1,817,223	1,817,223	-	-	-	-	-
Matured bonds/interest	5,765,000	-	-	-	5,600,000	-	-
Bond called	79,656,029	-	-	79,656,029	-	-	-
Purchase of investment	8,903,678	-	-	-	-	-	8,440,789
Transfers to:							
Operations fund	13,351,110	-	466,996	-	-	-	1,137,228
Improvement and development fund	16,427,816	15,650,000	-	-	-	-	-
Debt service account	14,880,442	14,580,442	-	-	-	-	300,000
Renewal and replacement fund	2,518,853	2,000,000	-	-	-	-	-
S.I. -- debt service fund	3,055,589	413,767	-	-	-	-	-
Debt service fund ser 01	2,568,694	993,521	-	-	1,575,173	-	-
Noise abatement and mitigation fund	3,265,902	-	-	-	-	-	-
Total cash disbursements	218,617,213	63,582,451	3,103,286	88,747,447	14,008,300	3,801,445	9,878,017
Equity transfer -- in (out)	(7,930)	-	-	-	-	-	-
Cash and investments on deposit, September 30, 2001	\$ 95,876,555	\$ 6,141,952	\$ 4,821,210	\$ 1,087,343	\$ 6,338,269	\$ 1,900,422	\$ 14,453,325

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the year ended September 30, 2001

	Debt Service S.I. Fund		Restricted Assets Fund	Improvement and Development Fund	Passenger Facility Charge Fund	Noise Abatement and Mitigation Fund
	Merrill Lynch Loan	S.I. Debt Service Reserve				
Cash disbursements:						
Operating expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital expenditures	-	-	-	5,665,535	-	9,627,126
Bond interest expense	-	273,838	-	-	-	-
Bond issue costs	350,600	-	-	-	-	-
Bond discount	-	-	-	-	-	-
Unamortized loss on bond redemption	-	-	-	-	-	-
Refund of security deposits	-	-	-	-	-	-
Florida state sales tax	-	-	-	-	-	-
Matured bonds/interest	-	165,000	-	-	-	-
Bond called	-	-	-	-	-	-
Purchase of investment	-	-	-	-	-	-
Transfers to:		462,889	-	-	-	-
Operations fund	-	-	59,445	11,687,441	-	-
Improvement and development fund	-	-	-	-	777,816	-
Debt service account	-	-	-	-	-	-
Renewal and replacement fund	-	-	-	-	518,853	-
S.I. - debt service fund	-	-	-	2,620,000	-	-
Debt service fund ser 01	-	-	-	-	-	-
Noise abatement and mitigation fund	-	-	-	-	3,265,902	-
Total cash disbursements	350,600	438,838	59,445	19,972,976	4,562,571	9,627,126
Equity transfer - in (out)	(7,930)	-	-	-	-	-
Cash and investments on deposit, September 30, 2001	\$ -	\$2,977,964	\$688,700	\$39,917,326	\$15,846,139	\$1,251,891

Note: The schedule herein has been prepared on a cash basis as required by the Resolution and does not reflect the adjustments which have been recorded to the accompanying financial statements necessary to amortize premiums or accrete discounts which are inherent in the purchase price of fixed rate investments.

Palm Beach County Department of Airports

Schedule of Bonds Issued, Paid, Purchased or Redeemed

For the year ended September 30, 2002

Airport System Revenue Bond	Date of Issue	Interest Rate Range	Bonds Outstanding September 30, 2001	Bonds Issued	Bonds Paid, Purchased or Redeemed	Bonds Outstanding September 30, 2002
Revenue refunding bonds: Series 2002	July 1, 2002	5.75%	\$ -	\$60,150,000	\$ -	\$60,150,000
Revenue refunding bonds: Series 2001	July 1, 2001	4.0% - 5.5%	83,965,000	-	-	83,965,000
Revenue refunding bonds: Series 1992	February 1, 1992	2.8% - 6.375%	59,380,000	-	59,380,000	-
Revenue refunding bonds: Series 1991	September 30, 1991	7.5% - 7.75%	6,025,000	-	6,025,000	-
			<u>\$149,370,000</u>	<u>\$60,150,000</u>	<u>\$65,405,000</u>	<u>\$144,115,000</u>
Airport System Taxable Subordinated Indebtedness						
Series 1989	June 1, 1989	9.5%	\$ 2,800,000	\$ -	\$2,800,000	\$ -
			<u>\$ 2,800,000</u>	<u>\$ -</u>	<u>\$2,800,000</u>	<u>\$ -</u>

Palm Beach County Department of Airports

Schedule of Bonds Issued, Paid, Purchased or Redeemed

For the year ended September 30, 2001

Airport System Revenue Bond	Date of Issue	Interest Rate Range	Bonds Outstanding September 30, 2000	Bonds Issued	Bonds Paid, Purchased or Redeemed	Bonds Outstanding September 30, 2001
Revenue refunding bonds: Series 2001	July 1, 2001	4.0% - 5.5%	\$ -	\$83,965,000	\$ -	\$ 83,965,000
Revenue refunding bonds: Series 1992	February 1, 1992	2.8% - 6.375%	59,380,000	-	-	59,380,000
Revenue refunding bonds: Series 1991	September 30, 1991	7.5% - 7.75%	91,495,000	-	85,470,000	6,025,000
			<u>\$150,875,000</u>	<u>\$83,965,000</u>	<u>\$85,470,000</u>	<u>\$149,370,000</u>
Airport System Taxable						
Subordinated Indebtedness						
Series 1989	June 1, 1989	9.5%	<u>\$ 2,965,000</u>	<u>\$ -</u>	<u>\$ 165,000</u>	<u>\$ 2,800,000</u>

Compliance Reports

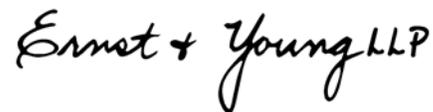
Report of Independent Certified Public Accountants On Bond Resolution Compliance

To the Honorable Board of
County Commissioners
Palm Beach County, Florida

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated statements of net assets of the Palm Beach County Department of Airports as of September 30, 2002 and 2001, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended, and have issued our report thereon dated January 6, 2003.

In connection with our audits, nothing came to our attention that caused us to believe that the Palm Beach County Department of Airports was not in compliance with the terms, covenants, provisions or conditions of Section 710 of the Palm Beach County Airport System Revenue Bond Resolution R-84-427, adopted April 3, 1984, which was amended in full by the Palm Beach County Airport System Revenue Bond Resolution R-84-1659 adopted on November 1, 1984 (as amended and supplemented) insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of County Commissioners of Palm Beach County, Florida, and management and is not intended to be and should not be used by anyone other than these specified parties.



January 6, 2003

**Report of Independent Certified Public Accountants
on Compliance and on Internal Control over Financial Reporting
Based on an Audit of the Financial Statements in Accordance
with *Government Auditing Standards***

To the Honorable Board of
County Commissioners
Palm Beach County, Florida

We have audited the accompanying consolidated statement of net assets of the Palm Beach County Department of Airports as of September 30, 2002, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated January 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Palm Beach County Department of Airports' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of consolidated 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Palm Beach County Department of Airports' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components

does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of County Commissioners of Palm Beach County, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



January 6, 2003