

Palm Beach County, Florida Department of Airports

Financial Report
09.30.2010

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Palm Beach County, Florida Department of Airports (the "Department") as of and for the years ended September 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 financial statements referred to above present only the Department, an enterprise fund of Palm Beach County, Florida, and do not purport to, and do not present fairly the financial position of Palm Beach County, Florida, as of September 30, 2010 and 2009, the changes in its financial position and where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2010 and 2009, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 28, 2011 and March 22, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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.

McGladrey & Pullen, LLP

West Palm Beach, Florida
March 28, 2011

Palm Beach County Department of Airports

Management's Discussion and Analysis

The following Management's 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 financial statements of the Department for the fiscal year ended September 30, 2010. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements including the notes thereto which are essential to a full understanding of the financial statement data. In addition to the financial statements and accompanying notes, this section presents certain required supplementary information regarding debt service requirements and a schedule of Department payments to other governmental units for goods and services.

Airport Activities and Highlights

Fiscal year 2010 results showed a 3.9% decrease in enplanements (departing passengers). Enplanements for the fiscal year totaled 2,922,373.

Fiscal year 2009 results showed an 8.72% decrease in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,040,443.

The following table shows a summary of various activities:

	2010	2009	2008
Enplanements	2,922,373	3,040,443	3,330,820
% Increase/(Decrease)	(3.88)%	(8.72)%	(4.90)%
Air Carrier Operations	56,092	56,116	69,573
% Increase/(Decrease)	(0.04)%	(19.34)%	(3.44)%
Landed Weight	3,608,094	3,646,346	4,168,600
% Increase/(Decrease)	(1.05)%	(12.53)%	(4.38)%
Cargo Tons	18,229	12,571	16,134
% Increase/(Decrease)	45.01%	(22.08)%	(0.71)%
Parking Transactions	878,190	948,924	1,075,948
% Increase/(Decrease)	(7.45)%	(11.81)%	(10.93)%

Palm Beach County Department of Airports

Management's Discussion and Analysis

Financial Operations Highlights

Financial impacts are highlighted as follows:

Changes between 2010 and 2009

- Operating revenues increased by less than 1% from \$63.3 million to \$63.5 million. Airline rents increased by \$1.5 million (or 11%) over the prior year, mostly due to increased lease rates charged to airlines. Offsetting this increase was a decrease in car rental revenues of \$774,000 due to decreased sales caused by declining passenger traffic and decreased contract guarantees. Other building and ground rents were less than the prior year, however, the prior year results included a one time payment, which if excluded, would have resulted in a current year increase of 2.2%.
- Operating expenses decreased by 3.4%, decreasing \$1.5 million to \$44.1 million in fiscal year 2010. Fire Rescue costs dropped \$805,000 due to a decrease in staffing. Other cost savings were achieved in Department staffing costs, maintenance, and utilities. During fiscal year 2010, management chose to not fill several vacancies that occurred by attrition, some of which occurred due to the County's early retirement offers. The Department as of September 30, 2010 had a staff total of 146 employees compared to 155 on September 30, 2009. No employee raises or cost of living increases were approved in 2010 or in 2009.
- 2010 Operating income after depreciation was a loss of \$5.7 million compared to a loss of \$6.5 million in 2009. Operating income before depreciation increased \$1.7 million, depreciation and amortization increased \$1 million. Investment income decreased significantly due to lesser rates of return on investment and more conservative investments policy related to certain restricted assets.

Changes between 2009 and 2008

- Operating revenues decreased by 2%, dropping from \$64.4 million to \$63.3 million. The major component was a decrease in parking revenues of \$1.7 million due to decreased parking transactions caused by declining passenger traffic. Landing Fee revenue increased \$884,000 due to increased landing fee rates and a newly implemented General Aviation Landing Fee at PBJA. The General Aviation landing fee generated \$690,000 in fiscal year 2009.
- Operating expenses increased by 2%, increasing \$869,000 to \$45.6 million in fiscal year 2009. Utility costs increased 7%, or \$315,000, due to usage and rate increases. Security costs increased 5%, or \$400,000 due to increased cost of the primary service provider, The Palm Beach County Sheriff's Office.
- 2009 Operating income after depreciation was a loss of \$6.5 million compared to a loss of \$2.6 million in 2008. This was due to decreased revenues and increased expenses as discussed above plus an increase in depreciation and amortization expense of \$1.9 million over the prior year.

Palm Beach County Department of Airports

Management's Discussion and Analysis

- The change in net assets for fiscal year 2010 totaled \$16.2 million; the net asset change in fiscal year 2009 totaled \$17.8.

	2010	2009	2008
Operating revenues	\$ 63,514,236	\$ 63,301,496	\$ 64,473,001
Operating expenses	44,065,735	45,601,969	44,732,030
Operating income before depreciation and amortization and other nonoperating income and expenses	19,448,501	17,699,527	19,740,971
Depreciation and amortization	25,192,836	24,207,560	22,368,839
Operating income (loss)	(5,744,335)	(6,508,033)	(2,627,868)
Other nonoperating income and expenses, net including capital contributions and transfers and special items	21,701,570	24,294,942	9,032,360
Change in net assets	\$ 15,957,235	\$ 17,786,909	\$ 6,404,492

Financial Position Summary

Net assets may serve over time as a useful indicator of the Department's financial position. The Department's assets exceeded liabilities by approximately \$355 million at September 30, 2010 and \$339 million at September 30, 2009. A condensed summary of the Department's net assets at September 30 is shown below:

	2010	2009	2008
Assets:			
Current and other assets	\$ 117,190,493	\$ 115,428,256	\$ 107,528,415
Capital assets	391,015,097	389,723,984	384,958,843
Total assets	508,205,590	505,152,240	492,487,258
Liabilities:			
Current and other liabilities	20,475,372	25,593,596	23,213,265
Long-term debt outstanding	132,579,158	140,614,303	148,116,561
Total liabilities	153,054,530	166,207,899	171,329,826
Net Assets:			
Invested in capital assets, net of debt	255,032,461	246,835,375	236,336,509
Restricted	61,204,383	51,743,277	42,249,029
Unrestricted	38,914,216	40,365,689	42,571,894
Total net assets	\$ 355,151,060	\$ 338,944,341	\$ 321,157,432

Palm Beach County Department of Airports

Management's Discussion and Analysis

A significant portion of the Department's net assets each year (72% at September 30, 2010) represents its investment 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 operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Department's net assets (17% at September 30, 2010) 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 (11% at September 30, 2010) may be used to meet any of the Department's ongoing obligations.

Financial Position, 2010 versus 2009

Total assets increased by \$3 million in 2010 due to the increases in restricted cash and investments and increases in capital assets. Liabilities decreased by \$13.2 million due to repayment of long-term revenue bond principal and a reduction in current liabilities. As a result, total net assets increased by \$16.2 million over the prior year.

Financial Position, 2009 versus 2008

Total assets increased by \$12.7 million in 2009 due to the increases in restricted reserves and increases in capital assets. Liabilities decreased by \$5.1 million due to repayment of long-term revenue bond principal. As a result, total net assets increased by \$17.8 million over the prior year.

Airline-Airport Use and Lease Agreement

The Department and certain airlines negotiated an Airline-Airport Use and Lease agreement (the "Agreement") effective October 1, 2006 for five years, which establishes how the signatory airlines ("Airlines") will be assessed rates and charges for the use of Palm Beach International Airport ("PBIA"). Landing fees and terminal rental rates are calculated for each fiscal year. Nonsignatory airlines pay an additional 10% for landing fees and terminal rents.

The Agreement serves as the basis for calculating landing fees and terminal rental rates. All costs 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. Certain airfield revenues are credited towards the Airline's net requirement, i.e., residual rate setting methodology. The terminal cost center expenditure requirements are wholly payable by airline rents, i.e., compensatory rate setting methodology. 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 is required resulting in an increase of 10% or more. This insures the Department is in a position to meet all financial requirements of the Bond resolution regarding debt service coverage requirements.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Rates and charges for the past three fiscal years and the 2011 budgeted rates are as follows:

	2011 Budget	2010	2009	2008
Landing fee (per 1,000 lbs MGLW)	\$1.459	\$1.331	\$1.204	\$1.163
Average annual terminal rate (per square foot)	68.17	64.71	59.39	55.74
Apron fee rental (annual, per linear foot)	266.45	263.69	272.53	240.81
Loading bridge rental (annual rate) (includes preconditioned air and 400 htz power systems)	68,144	61,737	62,642	61,008
Airline cost per enplanement	8.05	7.62	6.93	6.20

Factors impacting the Airline sector and PBIA traffic

Airline travel was negatively impacted by a poor national economy featuring high unemployment in 2008 and 2009. In response, airlines decreased operations and increased air fares or baggage prices to remain profitable. This has led to a general decline in air travel throughout the nation over the 2008-2009 period. Nationally during 2010, a modest 1% gain in national domestic air travel occurred. Local economic factors of high unemployment and real estate devaluation in south Florida have contributed to a continued soft market in air travel for PBIA. At PBIA, fiscal year 2010 passenger traffic declined 3% compared to traffic decline of 8.7% during fiscal year 2009. Subsequent to FY 2010, passenger traffic in October and November 2010 showed increases of 3% and 5%, respectively. Airline seat capacity serving PBIA for fiscal year 2010 has remained stable compared to the prior period.

United Airlines ceased operations at PBIA (as well as other airports) in September of 2008; however, United is honoring their lease obligation through the term of the existing lease (expiration September 30, 2011). United's passenger market share represented 1.5% of PBIA traffic. United leases approximately 7,350 square feet of the terminal space; this represents 3.9% of available preferential and exclusive use area.

Delta and Northwest Airlines have effectively merged during 2009. This merger has not significantly impacted operations at PBIA. For the purposes of this report, Delta and Northwest operations are shown combined as Delta for historical comparisons.

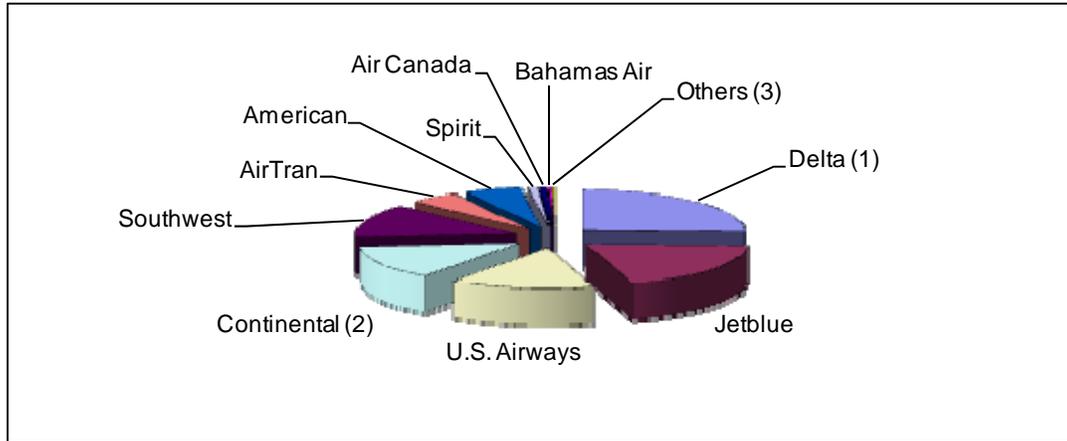
Southwest Airlines announced merger plans with AirTran Airways in 2010. Management does not expect the merger, if approved, to have any negative impact on PBIA flight operations or passenger volumes, however some decrease in leasehold would occur due to consolidation of terminal operations.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Airline Market Share and Passenger Information

Total passenger traffic is presented below for fiscal year 2010 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2009:



	2010	Change from 2009	% Change from 2009
Delta (1)	1,495,071	(18,276)	(1)%
Jetblue	1,163,572	(2,430)	(0)%
U.S. Airways	857,999	(56,467)	(6)%
Continental (2)	797,975	(36,841)	(4)%
Southwest	797,743	(30,799)	(4)%
American	335,136	231	0%
AirTran	291,002	(55,763)	(16)%
Spirit	57,793	(2,960)	(5)%
Air Canada	37,781	918	2%
Others (3)	30,838	10,368	51%
Total	5,864,910	(192,019)	(3)%

Airline Consolidation Information:

(1) Delta includes Delta, Comair, and Northwest

(2) Continental includes Continental and Gulfstream

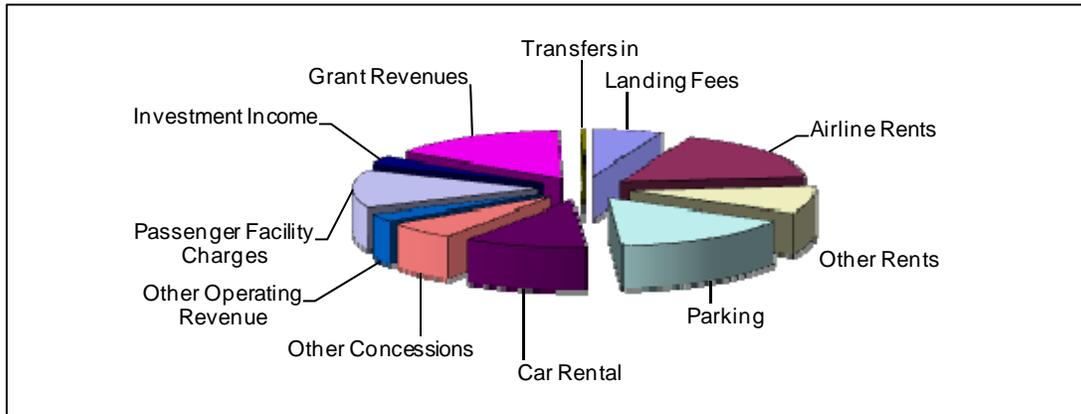
(3) Others include Bahamas Air, Gold Transportation, Sun County, Vision, and Allegiant

Palm Beach County Department of Airports

Management's Discussion and Analysis

Revenues

The following chart and table summarize revenues for the year ended September 30, 2010:



	2010	Percent of Total	Increase/ (Decrease) from 2009	% Increase/ (Decrease) from 2009
Operating:				
Landing fees	\$ 5,669,509	6.1%	\$ (331,268)	(6)%
Airline rents	16,122,909	17.3%	1,536,841	11%
Other rents	8,675,699	9.3%	(616,322)	(7)%
Parking	14,966,486	16.1%	(11,447)	(0)%
Car rental concessions	9,823,494	10.5%	(774,742)	(8)%
Other concessions	5,700,174	6.1%	124,562	2%
Other operating revenue	2,555,965	2.7%	285,116	13%
Total operating revenues	63,514,236	68.1%	212,740	0%
Other Sources:				
Passenger facility charges	12,269,764	13.2%	(129,383)	(1)%
Investment income	2,437,522	2.6%	(2,983,179)	(55)%
Contributions of assets	249,484	0.3%	(8,975,045)	(98)%
Grants and other items	14,513,447	15.5%	7,929,613	120%
Transfers in	249,484	0.3%	249,484	100%
Total other sources	29,719,701	31.9%	(3,908,510)	(12)%
Total	\$ 93,233,937	100.0%	\$ (3,695,770)	(4)%

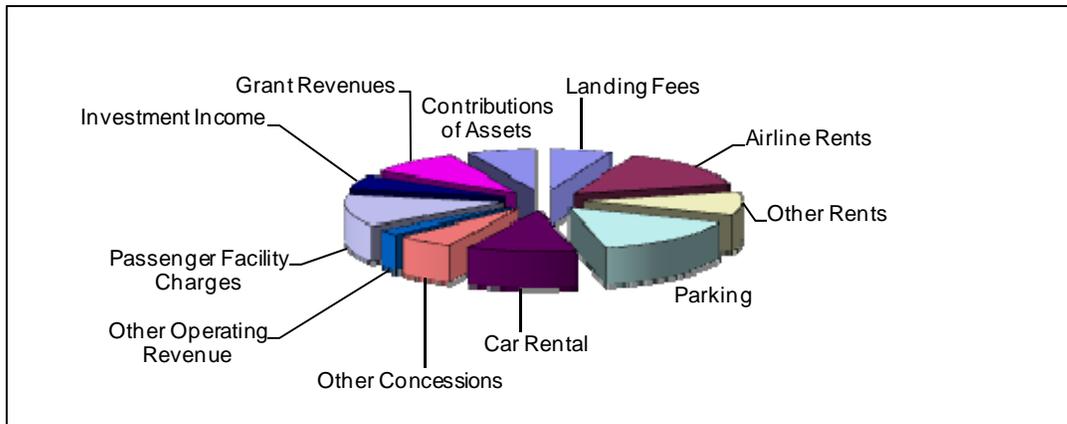
Airline rents increased by \$1.5 million over the prior year, mostly due to increased lease rates charged to airlines. Offsetting this increase was a decrease in car rental revenues of \$774,000 due to decreased sales caused by declining passenger traffic and decreased contract guarantees. Other building and ground rents were less than the prior year, however, the prior year results included a one time payment, which if excluded, would have resulted in a current year increase of 2.2%. Investment income declined due to decreased investment rates and more conservative investment policy. Contributions of assets in 2009 are a non-recurring item. Grant revenue increased due to increases in grant funded construction.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Revenues

The following chart and table summarize revenues for the year ended September 30, 2009:



	2009	Percent of Total	Increase/ (Decrease) from 2008	% Increase/ (Decrease) from 2008
Operating:				
Landing fees	\$ 6,000,777	6.2%	\$ 883,590	17%
Airline rents	14,586,068	15.0%	271,921	2%
Other rents	9,292,021	9.6%	1,254,996	16%
Parking	14,977,933	15.5%	(1,738,673)	(10)%
Car rental concessions	10,598,236	10.9%	(1,054,815)	(9)%
Other concessions	5,575,612	5.8%	(654,674)	(11)%
Other operating revenue	2,270,849	2.3%	(133,850)	(6)%
Total operating revenues	63,301,496	65.3%	(1,171,505)	(2)%
Other Sources:				
Passenger facility charges	12,399,147	12.8%	\$ 2,533,689	26%
Investment income	5,420,701	5.6%	696,195	15%
Contributions of assets	9,224,529	9.5%	5,705,853	163%
Grants and other items	6,583,834	6.8%	1,090,542	20%
Total other sources	33,628,211	34.7%	10,026,279	42%
Total	\$ 96,929,707	100.0%	\$ 8,854,774	10%

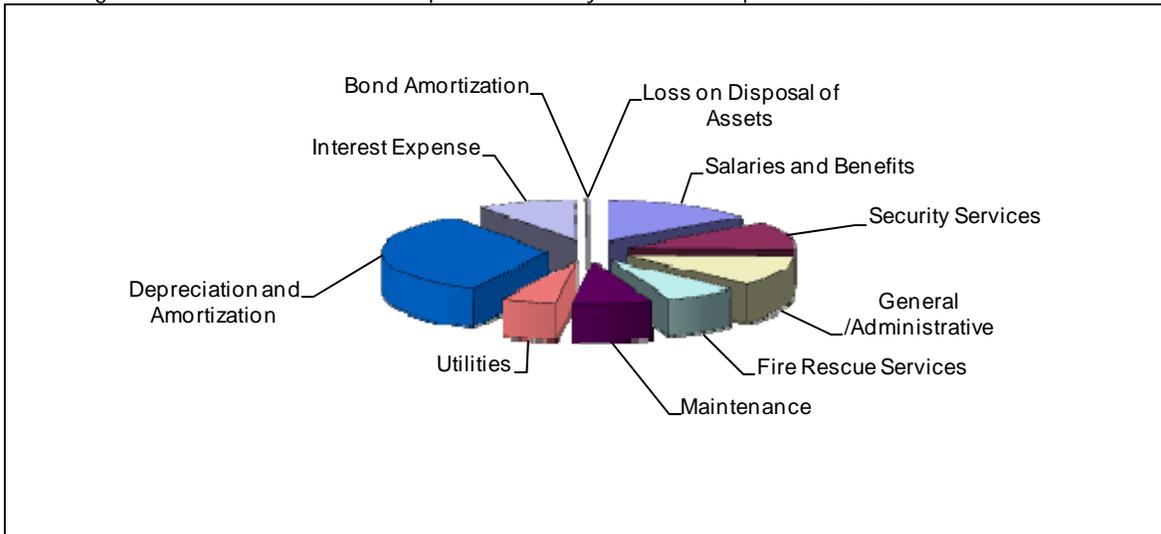
Parking and concessions fees declined due to decreased passenger volume. The Passenger Facility Charge collection rate increased from \$3 to \$4.50 per enplanement, thereby increasing PFC revenue. Landing fees and terminal revenue increased due to increased rates. Other rents increased due to a one time leasehold payment fee.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Expenses

The following chart and table summarize expenses for the year ended September 30, 2010:



	2010	Percent of Total	Increase/ (Decrease) from 2009	% Increase/ (Decrease) from 2009
Operating:				
Salaries and benefits	\$ 11,459,658	14.93%	\$ (186,168)	(2)%
Security services	8,028,363	10.46%	51,183	1%
General/administrative	9,056,190	11.80%	(9,165)	(0)%
Fire rescue services	5,500,218	7.16%	(804,746)	(13)%
Maintenance	5,895,490	7.68%	(190,954)	(3)%
Utilities	4,125,816	5.37%	(396,384)	(9)%
Total operating	44,065,735	57.40%	(1,536,234)	(3)%
Depreciation and amortization	25,192,836	32.81%	985,276	4%
Nonoperating:				
Interest expense	7,363,780	9.59%	(414,427)	(5)%
Bond amortization	115,213	0.15%	(14,560)	(11)%
Transfers to Other County Funds	40,170	0.05%	(1,059,830)	(96)%
Other expenses	-	0.00%	(325,289)	(100)%
Total nonoperating	7,519,163	9.79%	(1,814,106)	(23)%
Total expenses	\$ 76,777,734	100.00%	\$ (2,365,064)	(3)%

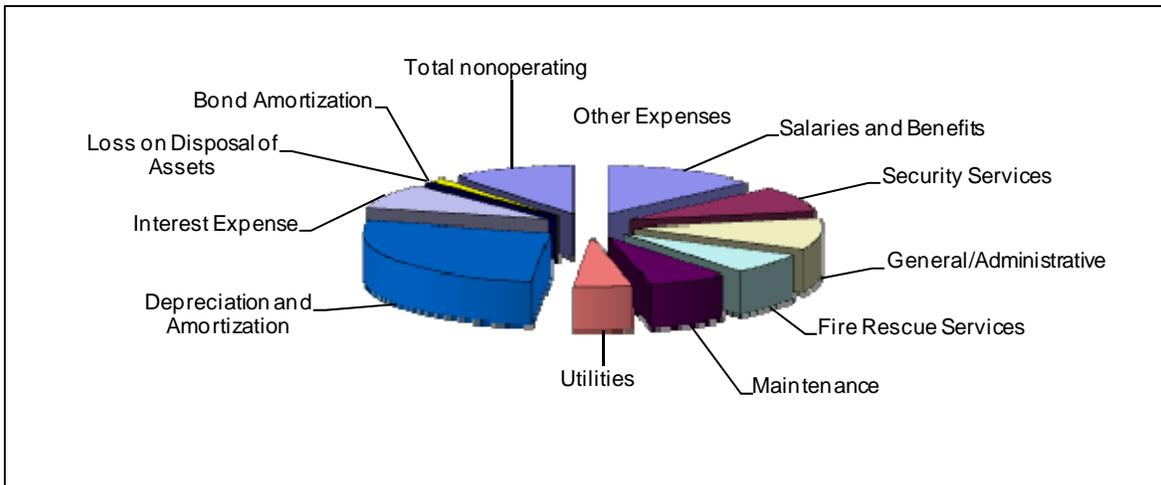
Operating expenses decreased 3.4% due to cost cutting measures implemented by the Department. Decreased costs in the Fire rescue services contract comprised the largest savings by reorganizing certain PBI based employees to non-Airport locations. Savings in utilities were also recognized due to favorable rates from FPL. Salary and benefit costs declined due to reductions in staffing through attrition.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Expenses

The following chart and table summarize expenses for the year ended September 30, 2009:



	2009	Percent of Total	Increase/ (Decrease) from 2008	% Increase/ (Decrease) from 2008
Operating:				
Salaries and benefits	\$ 11,645,826	15%	\$ 325,769	3%
Security services	7,977,180	10%	400,448	5%
General/administrative	9,065,355	11%	(12,653)	(0)%
Fire rescue services	6,304,964	8%	95,414	2%
Maintenance	6,086,444	8%	(253,964)	(4)%
Utilities	4,522,200	6%	314,925	7%
Total operating	45,601,969	58%	869,939	2%
Depreciation and amortization	24,207,560	31%	1,838,721	8%
Nonoperating:				
Interest expense	7,778,207	10%	3,121,767	67%
Bond amortization	129,773	0%	(10,153)	(7)%
Transfers to Other County Funds	1,100,000	1%	(8,554,866)	(89)%
Other expenses	325,289	0%	206,949	175%
Total nonoperating	9,333,269	11%	(5,236,303)	(36)%
Total expenses	\$ 79,142,798	100%	\$ (2,527,643)	(3)%

Operating expenses increased 2% overall. The increases in interest expense is due to capitalization of a portion of interest in 2008, thereby reducing the amount of interest expensed for that year; taking this into account, interest paid was relatively unchanged. Transfers to Other funds in 2008 included a one time transfer of capital assets not repeated in 2009.

Palm Beach County Department of Airports

Management's Discussion and Analysis

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 fiscal years. Cash equivalents include cash on hand, bank deposits and highly-liquid investments with an original maturity of three months or less:

	2010	2009	2008
Cash flow from operating activities	\$ 18,596,439	\$ 16,139,797	\$ 21,473,738
Cash flow from investing activities	2,555,234	5,527,991	4,825,885
Cash flow from noncapital financing	209,314	256,147	18,954
Cash flow from capital and related financing activities	(18,689,584)	(19,360,086)	(56,132,679)
Net (decrease) increase in cash and cash equivalents	2,671,403	2,563,849	(29,814,102)
Cash and cash equivalents:			
Beginning of year	101,607,416	99,043,567	128,857,669
End of year	<u>\$ 104,278,819</u>	<u>\$ 101,607,416</u>	<u>\$ 99,043,567</u>

Capital Acquisitions and Construction Activities

During 2010, the Department expended \$26.6 million on capital activities. Completed projects during 2010 totaling \$19.5 million were transferred from construction-in-progress to their respective capital accounts. The major project during fiscal year 2010 was completion of an expansion of Apron A, which will allow for additional commercial aircraft parking. The major completed projects and acquisitions were:

Apron A Expansion	\$5.78 million
Runway 13/31 Improvements	2.33 million
Taxiway D improvements	2.09 million
Air cargo Ramp Extension	2.04 million

During 2009, the Department expended \$22.9 million on capital activities. Completed projects during 2009 totaling \$36.1 million were transferred from construction-in-progress to their respective capital accounts. The major completed projects and acquisitions were:

Concourse C Expansion	\$23.29 million
Glades Airport Terminal	1.92 million
Glades Airport T-Hangars	1.50 million
North County Airport T-Hangars	1.45 million

See Note 3, Capital Assets, in the notes to the financial statements for additional information.

Palm Beach County Department of Airports

Management's Discussion and Analysis

In general, acquisitions are funded using a variety of financing sources, including Federal Grants, State Grants, Airport revenues, Passenger Facility Charges, and Revenue Bonds.

Long-Term Debt

The Department had outstanding long-term debt of \$131.4 million and \$139.4 million as of September 30, 2010 and 2009. Both amounts are net of any current maturities, unamortized premiums or unamortized discounts. The following table reflects the debt activities for Revenue Refunding Bonds that occurred during Fiscal Year 2010:

	Balance at October 1, 2009	Additions	Reductions	Balance at September 30, 2010	Due Within One Year
Revenue Bonds:					
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ 69,080,000	
Series 2006B	16,855,000	-	-	16,855,000	
Series 2002	45,410,000	-	-	45,410,000	
Series 2001	15,510,000	-	7,535,000	7,975,000	7,975,000
	<u>\$ 146,855,000</u>	<u>\$ -</u>	<u>\$ 7,535,000</u>	<u>139,320,000</u>	<u>\$ 7,975,000</u>
Less current maturities				7,975,000	
Long-term portion				<u>131,345,000</u>	
Add unamortized premium				1,102,496	
Less unamortized loss on refunding				(1,028,587)	
Total				<u><u>\$ 131,418,909</u></u>	

The following table reflects the debt activities that occurred during Fiscal Year 2009:

	Balance at October 1, 2008	Additions	Reductions	Balance at September 30, 2009	Due Within One Year
Revenue Bonds:					
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ 69,080,000	
Series 2006B	16,855,000	-	-	16,855,000	
Series 2002	45,410,000	-	-	45,410,000	
Series 2001	22,735,000	-	7,225,000	15,510,000	7,535,000
	<u>\$ 154,080,000</u>	<u>\$ -</u>	<u>\$ 7,225,000</u>	<u>146,855,000</u>	<u>\$ 7,535,000</u>
Less current maturities				7,535,000	
Long-term portion				<u>139,320,000</u>	
Add unamortized premium				1,433,950	
Less unamortized loss on refunding				(1,325,228)	
Total				<u><u>\$ 139,428,722</u></u>	

The County has not issued any new revenue bonds during fiscal years 2009 and 2010 and the changes in debt in 2009 and 2010 represent payment of the required annual principal amounts per the maturity schedules. See Note 6, Revenue Bonds and Loan Payable in the notes to the financial statements for additional information.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Credit Ratings and Bond Insurance

On an underlying basis (i.e., uninsured) the Department's credit ratings currently stand at: Standard and Poor's A, Fitch A and Moody's Investors Service A2. On an insured basis the rating are as follows: Moody's, S & P, Fitch; Aaa, AAA and AAA, respectively. These ratings are unchanged from the previous year.

Passenger Facility Charges

The Department, as of September 30, 2010 has collected \$158,533,971 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 capital expenditures from PFC sources totaling \$123,291,305 over the same time period. As of September 30, 2010, the Department was authorized to collect \$189.4 million in PFC revenues. The Department's PFC level was authorized to increase from \$3.00 to \$4.50 effective July 2008.

Economic Factors and Next Year's Budgets and Rates

- Palm Beach County has seen significant growth in population and housing in past years; during fiscal year 2010 little or no growth was recorded in either statistic as a result of poor economic conditions, national credit issues, and housing sector declines.
- Palm Beach County Tourism statistics have shown modest rebounds during fiscal year 2010 following down years of 2008 and 2009. Tourist stays in local hotels increased and average room rates remained relatively stable.

The Department of Airport's 2011 operating expense budget totals \$46.1 million, not including interfund transfers and reserves, which represents a decrease of 3.6% over the prior year budget. The Department is aggressively seeking to reduce or control costs to help offset revenue losses from prior years. Vacant staff positions are being closely monitored and in some cases, are not being filled. Budgetary changes impact airline rates and are therefore important to control to keep airline costs at a reasonable level. Fiscal 2011 terminal rates average \$68.17 per square foot; landing fees are \$1.459 per 1,000 lbs. of landed weight. Fiscal 2010 terminal rates average \$64.71 per square foot; landing fees are \$1.331 per 1,000 lbs. of landed weight. Airline cost per enplanement for fiscal year 2011 is expected to increase to approximately \$8.05 compared to \$7.62 for fiscal year 2010.

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, Deputy Director of Airports, Finance and Administration, Palm Beach County, Department of Airports, Palm Beach International Airport, Building 846, West Palm Beach, Florida 33406 or email at msimmons@pbia.org. Additional business information and statistics for the Airport can be viewed and downloaded at the Department's website: www.pbia.org.

Palm Beach County Department of Airports

Statements of Net Assets
September 30, 2010 and 2009

Assets	2010	2009
Current Assets:		
Pooled cash and cash equivalents	\$ 38,166,488	\$ 42,514,651
Nonpooled cash and cash equivalents	25,174	1,100
Accounts receivable, less allowance for doubtful accounts of \$452,532 and \$388,905 in 2010 and 2009, respectively	1,901,541	2,834,986
Government grants receivable	4,847,487	4,556,367
Due from other governments	-	42
Current portion of other receivable	120,173	113,550
Inventories	1,133,149	1,095,517
Other current assets	1,189,018	1,191,896
Total current assets	47,383,030	52,308,109
Noncurrent Assets:		
Restricted assets:		
Pooled cash and cash equivalents	15,524,768	15,928,514
Nonpooled cash and cash equivalents	36,758,367	28,925,158
Cash with fiscal agent	13,804,022	14,237,993
Accounts receivable, less allowance for doubtful accounts of \$1,500 and \$1,500 in 2010 and 2009, respectively	1,662,224	1,700,200
Total restricted assets	67,749,381	60,791,865
Capital assets:		
Land	97,147,552	95,596,241
Construction in progress	20,793,873	15,976,849
Depreciable capital assets, net of accumulated depreciation	273,073,672	278,150,894
Total capital assets	391,015,097	389,723,984
Other noncurrent assets:		
Deferred bond issuance costs	1,579,538	1,729,564
Other receivable, net of current portion and discount of \$89,315 and \$107,292 in 2010 and 2009, respectively	478,544	598,718
Total other noncurrent assets	2,058,082	2,328,282
Total noncurrent assets	460,822,560	452,844,131
Total assets	508,205,590	505,152,240

See Notes to Financial Statements.

	2010	2009
Liabilities and Net Assets		
Current liabilities:		
Accounts and contracts payable	\$ 6,010,638	\$ 7,538,978
Compensated absences payable	85,528	118,000
Unearned revenue	433,879	562,353
Due to other funds	300,567	1,399,015
Due to State of Florida	-	1,624,987
Due to other governments	454,333	446,668
Current portion of long term liabilities	22,117	-
Other current liabilities	992,427	1,395,119
Total current liabilities	8,299,489	13,085,120
Current liabilities payable from restricted assets:		
Accounts and contracts payable	118,302	271,502
Security deposits	90,691	502,871
Due to State of Florida	310,000	310,000
Interest payable on revenue bonds	3,681,890	3,889,103
Current maturities of revenue bonds	7,975,000	7,535,000
Total current liabilities payable from restricted assets	12,175,883	12,508,476
Long-term liabilities:		
Other long-term liabilities	63,931	23,252
Compensated absences payable	1,096,318	1,162,330
Revenue bonds payable (less current maturities)	131,418,909	139,428,721
Total long-term liabilities	132,579,158	140,614,303
Total liabilities	153,054,530	166,207,899
Net assets:		
Invested in capital assets, net of related debt	255,032,461	246,835,375
Restricted:		
Passenger facility charges	36,887,429	30,618,111
Debt service	10,727,162	8,011,487
Renewal and replacement	1,570,590	1,219,219
Operation and maintenance	7,953,740	7,653,069
Capital outlay	4,065,462	4,241,391
	61,204,383	51,743,277
Unrestricted	38,914,216	40,365,689
Total net assets	\$ 355,151,060	\$ 338,944,341

Palm Beach County Department of Airports

Statements of Revenues, Expenditures and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Rentals	\$ 24,798,608	\$ 23,878,089
Concessions	30,490,154	31,151,781
Landing fees	5,669,509	6,000,777
Other	2,555,965	2,270,849
Total operating revenues	63,514,236	63,301,496
Operating expenses:		
Employee compensation and benefits	11,459,658	11,645,826
General and administrative	9,056,190	9,065,355
Maintenance	5,895,490	6,086,444
Contracted security services	8,028,363	7,977,180
Contracted fire-rescue services	5,500,218	6,304,964
Utilities	4,125,816	4,522,200
Total operating expenses before depreciation and amortization	44,065,735	45,601,969
Operating income before depreciation and amortization	19,448,501	17,699,527
Depreciation and amortization	25,192,836	24,207,560
Operating loss	(5,744,335)	(6,508,033)
Nonoperating revenues (expenses):		
Investment income	2,437,522	5,420,701
Passenger facility charges	12,269,764	12,399,147
Interest expense	(7,363,780)	(7,778,207)
Gain/(loss) on disposal of capital assets	89,375	(325,289)
Amortization of revenue bond costs	(115,213)	(129,773)
Other revenues (expenses)	292,609	35,419
Total nonoperating revenues (expenses), net	7,610,277	9,621,998
Income before contributions and transfers	1,865,942	3,113,965
Airport improvement capital grants	14,131,463	9,189,110
Capital contributions of buildings from Others	-	6,583,834
Transfers from other county funds	249,484	-
Transfers to other county funds	(40,170)	(1,100,000)
Change in net assets	16,206,719	17,786,909
Net assets at beginning of year	338,944,341	321,157,432
Net assets at end of year	\$ 355,151,060	\$ 338,944,341

See Notes to Financial Statements.

Palm Beach County Department of Airports

Statements of Cash Flows

Years Ended September 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Cash received from customers	\$ 63,836,470	\$ 60,841,734
Cash payments to vendors for goods and services	(14,990,261)	(15,036,575)
Cash payments to employees for services	(11,550,646)	(11,499,573)
Cash payments to other funds	(18,991,733)	(18,165,789)
Other receipts	292,609	-
Net cash provided by operating activities	18,596,439	16,139,797
Cash Flows From Noncapital Financing Activities		
Transfer from other County funds	249,484	256,147
Transfer to other County funds	(40,170)	-
Net cash provided by noncapital financing activities	209,314	256,147
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(28,220,464)	(22,261,272)
Proceeds from sale of capital assets	103,301	61,460
Principal repayment on revenue bonds	(7,535,000)	(7,225,000)
Passenger facility charges received	12,314,670	12,119,352
Receipt of capital grants and reimbursements	12,218,902	5,868,079
Interest and fiscal charges paid	(7,570,993)	(7,922,705)
Net cash used for capital and related financing activities	(18,689,584)	(19,360,086)
Cash Flows From Investing Activities		
Receipt of repayments on other receivables	113,551	107,290
Investment arbitrage	4,161	-
Interest received on investments	2,437,522	5,420,701
Net cash provided by investing activities	2,555,234	5,527,991
Net increase in cash and cash equivalents	2,671,403	2,563,849
Cash and cash equivalents at beginning of year (including \$59,091,665 and \$39,206,160 in restricted accounts)	101,607,416	99,043,567
Cash and cash equivalents at end of year (including \$66,087,157 and \$59,091,665 in restricted accounts)	\$ 104,278,819	\$ 101,607,416

(Continued)

Palm Beach County Department of Airports

Statements of Cash Flows (Continued)
Years Ended September 30, 2010 and 2009

	2010	2009
Reconciliation of Operating Loss to Net Cash Provided By		
Operating Activities:		
Operating loss	\$ (5,744,335)	\$ (6,508,033)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	25,192,836	24,207,560
Provision for doubtful accounts	63,627	30,111
Other revenue/(expense)	292,609	-
Changes in assets and liabilities:		
Accounts receivable	862,888	(2,002,076)
Inventories	(37,632)	(105,953)
Other current assets	2,878	(153,778)
Accounts and contracts payable	41,050	254,574
Compensated absences payable	(98,484)	-
Unearned revenues	(128,474)	(627,759)
Due to other funds	(1,098,448)	16,490
Other liabilities	(339,896)	858,588
Security deposits	(412,180)	170,073
Total adjustments	24,340,774	22,647,830
Net cash provided by operating activities	\$ 18,596,439	\$ 16,139,797

Supplemental Disclosures of Noncash Capital and Related

Financing Activities

Amortization of deferred issuance costs	\$ 150,026	\$ 166,787
Amortization of premium on bonds	331,453	384,568
Investment arbitrage	4,161	-
Contributions of capital assets from other funds	-	6,583,835
Net capital assets transferred to other funds	-	(1,100,000)
Disposition of fully depreciated capital assets	497,351	3,218,152
Amortization of deferred advance refunding loss	296,641	347,555

See Notes to Financial Statements.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

A. 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").

The financial statements only present the Department of Airports, an enterprise fund of Palm Beach County, Florida, and do not purport to, and do not present fairly the financial position of Palm Beach County, Florida, and the changes in its financial position and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States.

B. 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 incurred are recovered in the form of charges to users of such services.

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

C. 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 of America. Revenues are recognized when earned and expenses are recognized when incurred.

Rental revenue includes revenue from terminal fees charged to airlines and is recognized when earned in terms of the lease agreement. Concession revenue includes car rental concessions and parking fees and is recognized when earned in terms of the concession agreement.

Landing fees are recognized in accordance with the agreement with signatory airlines, based on landed weight of aircraft.

Intergovernmental revenues from federal or state grants are recognized when eligibility requirements of the grant program have been met.

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

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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. Certain prior year amounts have been reclassified to conform to the current year presentation.

D. 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 internal investment pool, to be cash equivalents for purposes of the statement of net assets and the statement of cash flows.

E. Investments

Investments consist of U.S. Government and Agency obligations. The non-pooled money market funds and cash with fiscal agents-money market funds 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.

F. 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 under the Department of Airports operating leases. No collateral is required for accounts receivable. An allowance for doubtful accounts is provided for receivables where there is a question as to ultimate collectability. Receivables are written off when management has determined that the amount will not be collected. Collection on accounts previously written off is included in other operating revenues when received.

G. Inventories

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

H. Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of donation. Capital assets transferred to or from the Department to other County funds are recorded at their net book value (historical cost less accumulated depreciation) as of the date of the transfer. Maintenance and repairs are charged to expense as incurred. Capital assets are defined as those assets with an initial, individual cost of over \$1,000. Major renewals and betterments which are significant and add to the productive capacity or extend the useful life of capital assets are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets, which are summarized as follows:

Buildings	5 – 40 years
Improvements other than buildings	5 – 20 years
Furniture, fixtures and equipment	3 – 12 years

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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. Those items that are deemed to be capital expenditures are recorded as capital asset additions when the costs are incurred. The FAA funds approximately 80% of these costs with the remainder financed by the State of Florida and 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 cost associated with acquiring these parcels of land are \$49,866,823 at September 30, 2010 and 2009 and is recorded under the caption "land" in the accompanying statements of net assets.

Property acquired through the Department's Residential Buyout Program of Noise Inspected Areas is recorded as capital assets at cost until such time it is no longer needed for its original use. At that time the property is transferred to assets held for sale and is reported at the lower of cost or net realizable value.

I. 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.

J. Security Deposits

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

K. Unearned Revenue

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

L. Restricted Assets

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 which are designated primarily for payment of debt service are \$15,164,215 and \$11,625,420 at September 30, 2010 and 2009, respectively, and the retention of the operation and maintenance reserve of \$7,953,740 and \$8,155,939 at September 30, 2010 and 2009, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately \$2,790,279 and \$3,143,687 at September 30, 2010 and 2009, 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. In addition, the Department of Airports also has restricted assets of approximately \$38,404,832 and \$30,618,111 at September 30, 2010 and 2009, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

M. Amortization

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

N. Interest

Interest costs are expensed or capitalized in accordance with the provisions of Statements of Financial Accounting Standards No. 34, *Capitalization of Interest Cost*. The amount of interest cost incurred was \$7,363,780 and \$7,778,207 for the fiscal year ended September 30, 2010 and 2009, respectively, which none was recorded as capitalized interest in both fiscal years.

O. Compensated Absences

The 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 through contributions to the County's Combined Insurance Fund, provides an implicit subsidy for health insurance to retired employees.

P. Passenger Facility Charges

In 1994, the FAA began a program allowing Airports to collect a \$3 Passenger Facility Charge ("PFC") per enplaned passenger. The monies collected under this program must be used for capital-related improvements to the Airport facilities and all expenditures of these funds must be preapproved by the FAA. PFC revenue is treated as non-operating revenue in the financial statements. On October 9, 2007, the Federal Aviation Administration approved an amendment to the PFC collection authorization increasing the PFC fee from \$3.00 to \$4.50 effective July 2008. During fiscal year 2010, the FAA approved two amendments to the Department's PFC collection authority, increasing the total collection authority to \$189.4 million. Cumulative PFC expenditures through September 30, 2010 total \$123.3 million.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Capital Contributions

Grants from other governmental agencies for the acquisition of capital assets are recorded as capital contributions when related eligibility requirements are met. Contributions from fixed-base operators in the form of buildings and hangars which revert to the Department are recorded as capital contributions at fair value when title is transferred to the Department.

R. Use of Estimates

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

S. Use of Restricted Resources

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

Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of the following at September 30, 2010 and 2009:

	2010	2009
County Internal Investment Pool	\$ 53,691,256	\$ 58,443,165
Non-pooled Money Market and Cash Accounts	36,782,441	28,925,158
Cash with fiscal agent	13,804,022	14,237,993
Petty cash	1,100	1,100
Total	<u>\$ 104,278,819</u>	<u>\$ 101,607,416</u>
Unrestricted cash and cash equivalents	\$ 38,191,622	\$ 42,515,751
Restricted cash and cash equivalents	66,087,197	59,091,665
Total	<u>\$ 104,278,819</u>	<u>\$ 101,607,416</u>

Cash and Cash Equivalents

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 \$1.58 billion and \$1.76 billion as of September 30, 2010 and 2009, respectively, of which approximately 85%, are invested in U.S. Government and Agency obligations. The County's investment policy for this pool requires that all securities be insured or registered in the name of the County and held by a third party custodial institution, with capital and surplus stock of at least \$500 million and a separate custody account at the Federal Reserve Bank that is restricted for the safekeeping of County-owned securities.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

The equity in the County pooled cash system is available to the Department of Airports on a demand basis. See the County's Comprehensive Annual Financial Report for disclosures relating to its investment policy interest rate risk, credit risk, custodial credit risk and concentration of credit risk.

As of September 30, 2010, the Department of Airports had \$13,804,022 on deposit with a fiscal agent as required by the bond documents; the Department had the following underlying investments:

Investments	Fair Value	Percentage of Total	Maturity	Standard & Poor's Investment Rating Service
Fidelity U.S. Treasury Portfolio Money Market Mutual Fund	\$ 13,804,022	100%	Less than 1 yr	AAAm
AIM International Money Market Fund	\$ 36,468,043	100%	Less than 1 yr	AAAm

As of September 30, 2009, the Department of Airports had \$14,237,993 on deposit with a fiscal agent as required by the bond documents; the Department had the following underlying investments:

Investments	Fair Value	Percentage of Total	Maturity	Standard & Poor's Investment Rating Service
Fidelity U.S. Treasury Portfolio Money Market Mutual Fund	\$ 14,237,993	100%	Less than 1 yr	AAAm
AIM International Money Market Fund	\$ 28,925,158	100%	Less than 1 yr	AAAm

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. The Department's investments have a maturity of less than one year, resulting in minimal interest rate risk.

Credit Risk

Credit risk is the risk that an issuer will not fulfill its obligations. In accordance with the County's Investment Policy, no-load money market mutual funds backed by government bonds are allowable if rated in the highest rating category of a Nationally Recognized Statistical Rating Organization (NRSRO).

Custodial Credit Risk

Custodial credit risk would arise in the event of the failure of a custodian of the Department's investments, after which the government would not be able to recover the value of its investments that are in the possession of the third party custodian. The Department follows the County's Investment Policy and has all securities registered in the name of the Department and held by a third party safekeeping institution.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Department does not have a formal investment policy that limits investment concentration risk.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Investments

The Department of Airports follows the County's investment policy. 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, repurchase agreements, interest-bearing time deposits or savings accounts, the Local Government Surplus Funds Trust Fund, the Florida Local Government Investment Trust, Collateralized Mortgage Obligations ("CMO's"), money market mutual funds, and certain corporate securities.

Note 3. Capital Assets

	Balance at October 1, 2009	Additions	Retirements	CIP Transfer	Balance at September 30, 2010
Depreciable capital assets					
Buildings	\$ 346,228,850	\$ 24,742	-	2,552,281	\$ 348,805,873
Improvements other than buildings	179,712,890	-	-	15,219,632	194,932,522
Furniture, fixtures and equipment	39,985,997	2,243,988	517,862	88,897	41,801,020
Intangible – easement rights	13,754,957	-	-	-	13,754,957
Total depreciable capital assets	579,682,694	2,268,730	517,862	17,860,810	599,294,372
Less accumulated depreciation					
Buildings	141,697,554	14,678,087	-	-	156,375,641
Improvements other than buildings	138,558,072	6,439,598	-	-	144,997,670
Furniture, fixtures and equipment	18,460,752	3,731,277	503,936	-	21,688,093
Intangible – easement rights	2,815,422	343,874	-	-	3,159,296
Total accumulated depreciation	301,531,800	25,192,836	503,936	-	326,220,700
Depreciable capital assets, net of accumulated depreciation	278,150,894	(22,924,106)	13,926	17,860,810	273,073,672
Nondepreciable capital assets					
Land	95,596,241	-	-	1,551,311	97,147,552
Construction in progress	15,976,849	24,324,990	-	(19,507,966)	20,793,873
Total capital assets	\$ 389,723,984	\$ 1,400,884	\$ 13,926	\$ (95,845)	\$ 391,015,097

Palm Beach County Department of Airports

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	Balance at October 1, 2008	Additions	Retirements	CIP Transfer	Balance at September 30, 2009
Depreciable capital assets					
Buildings	\$ 313,840,313	\$ 4,253,822	\$ 2,046,189	\$ 30,180,904	\$ 346,228,850
Improvements other than buildings	175,607,230	2,943,974	563,337	1,725,023	179,712,890
Furniture, fixtures and equipment	38,487,892	968,446	3,186,122	3,715,781	39,985,997
Intangible – easement rights	13,754,957	-	-	-	13,754,957
Total depreciable capital assets	541,690,392	8,166,242	5,795,648	35,621,708	579,682,694
Less accumulated depreciation					
Buildings	129,347,878	14,050,827	1,701,151	-	141,697,554
Improvements other than buildings	132,508,677	6,612,732	563,337	-	138,558,072
Furniture, fixtures and equipment	18,405,035	3,200,127	3,144,410	-	18,460,752
Intangible – easement rights	2,471,548	343,874	-	-	2,815,422
Total accumulated depreciation	282,733,138	24,207,560	5,408,898	-	301,531,800
Depreciable capital assets, net of accumulated depreciation	258,957,254	(16,041,318)	386,750	35,621,708	278,150,894
Nondepreciable capital assets					
Land	95,231,826	-	-	364,415	95,596,241
Construction in progress	30,769,763	22,082,437	-	(36,875,351)	15,976,849
Total capital assets	\$ 384,958,843	\$ 6,041,119	\$ 386,750	\$ (889,228)	\$ 389,723,984

Note 4. Leases, as Lessor

The Department of Airports leases a major portion of its property to airlines, rental car companies 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 \$4,262,772 and \$3,240,133 for the years ended September 30, 2010 and 2009, respectively. All Department of Airports' leases are operating leases. A significant portion of the airlines and rental car companies operating leases usually run for between two to five years and are scheduled to expire after fiscal year 2011 resulting in a decline in minimum future receipts.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 4. Leases, as Lessor (Continued)

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

Year Ending September 30,	
2011	\$ 39,358,172
2012	11,680,809
2013	10,627,854
2014	9,966,058
2015	9,459,951
Thereafter	69,454,013
	<u>\$ 150,546,857</u>

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2010 and 2009, is as follows:

	2010	2009
Buildings	\$ 229,048,430	\$ 226,649,397
Less accumulated depreciation	123,721,963	112,731,804
	<u>105,326,467</u>	<u>113,917,593</u>
Land	5,530,372	5,547,813
Property held for lease, net	<u>\$ 110,856,839</u>	<u>\$ 119,465,406</u>

Note 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. As of September 30, 2009, the Department owed \$1,624,400 to the FDOT related to this advance funding. The Department reimbursed the FDOT this amount during fiscal year 2010, and therefore has no further liability for this transaction as of September 30, 2010.

As part of the sale of properties known as "Hillcrest," the Department is obligated to repay the state a portion of the sales proceeds. The state assisted the Department in the original acquisition of the Hillcrest properties through grant payments to the Department. The Department sold this land to another party in 2006, and pursuant to grant assurances, is obligated to pay a portion back to the state in the amount of \$310,000 which is recorded as a payable from restricted assets.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 6. Revenue Bonds Payable and Long-Term Debt

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Series 2006A Revenue Bonds, principal due annually, in various amounts, beginning October 1, 2021 through October 1, 2036, with interest from 4.7% to 5.0% payable semi-annually on October 1 and April 1.	\$ 69,080,000	\$ 69,080,000
Series 2006B Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2015 through October 1, 2020, with interest at 5.0% payable semi-annually on October 1 and April 1.	16,855,000	16,855,000
Series 2002 Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semi-annually on October 1 and April 1.	45,410,000	45,410,000
Series 2001 Revenue Refunding Bonds, principal due annually, in various amounts through October 1, 2010, with interest from 4.0% to 5.5% payable semi-annually on October 1 and April 1.	7,975,000	15,510,000
	<u>139,320,000</u>	<u>146,855,000</u>
Less current portion	7,975,000	7,535,000
	<u>131,345,000</u>	<u>139,320,000</u>
Unamortized bond premium	1,102,496	1,433,949
Unamortized loss on refunding	(1,028,587)	(1,325,228)
Long-term portion	<u>\$ 131,418,909</u>	<u>\$ 139,428,721</u>

Series 2006 A and B

Series 2006A, \$69,080,000 Airport System Revenue Bonds, dated May 17, 2006; proceeds were used for the construction of an additional 3,200 space long-term parking garage. The garage is necessary to meet additional passenger traffic demands for parking facilities at Palm Beach International Airport. The new garage structure was fully operational in the second quarter of fiscal year 2008.

Notes to Financial Statements

Note 6. Revenue Bonds Payable and Long-Term Debt (Continued)

Pursuant to the Bond Resolution, the County covenants that it will fix, charge and collect rates, fees, rentals and charges for the use of the Airport System, and shall revise such rates, fees, rentals and charges as often as may be necessary or appropriate to produce revenues in each fiscal year at least equal to the sum of operation and maintenance expenses, including reserves therefore provided for in the annual budget, plus the greater of (A) an amount equal to the sum of 1.25 times the aggregate debt service for such fiscal year, or (B) the sum of: (i) the amount to be paid during such fiscal year into the debt service account, plus (ii) the amount, if any, to be paid during the fiscal year into the debt service account (including amounts payable to the issuer of any debt service reserve account facility and excluding amounts required to be paid into such account out of the proceeds of Bonds), plus (iii) the amount, if any, to be paid into the Renewal and Replacement Fund as provided in the annual budget, plus (iv) all other charges and liens whatsoever payable out of revenues during such fiscal year, plus (v) to the extent not otherwise provided for, all amounts payable on subordinated indebtedness.

Accordingly, the Department has pledged for the payment of principal and interest all (Airport System) Net Revenues available for Debt Service, and all Funds and Accounts established by the Bond Resolution. The full faith and credit of the County is not pledged for the payment of Airport indebtedness. Debt service coverage in 2010 was 1.79 times the aggregate debt service. Principal and interest paid for the current year and Net Revenues Available for Debt Service were approximately \$15.3 and \$25.2 million, respectively.

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.

A portion (\$14,740,000) of this Series was defeased during fiscal year 2006 by placing monies with an escrow depository. The balance of the defeased portion of this Series as of September 30, 2010 is \$14,740,000.

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.

A portion (\$15,040,000) of this Series was defeased during fiscal year 2006 by placing monies with an escrow depository. The balance of the defeased portion of this Series as of September 30, 2010 is \$3,240,000.

Subsequent to September 30, 2010, the Series 2001 Revenue Bonds were fully paid with the last payment of principle occurring October 1, 2010.

Notes to Financial Statements

Note 6. Revenue Bonds Payable and Long-Term Debt (Continued)

Loan Payable

On March 15, 2006, the Department of Airports entered into an \$8,000,000 line of credit agreement with a financial institution to finance costs incurred for the acquisitions, construction, installation and equipping of certain facilities and improvements relating to the Airport System. Principal borrowed on the line of credit is due at maturity on June 30, 2011. Interest on the principal balance accrues at a rate equivalent to 77% of the one-month LIBOR rate plus 46 basis points and is paid quarterly. Borrowings on the line of credit are payable from and secured by a pledge of the net revenues of the airport system, subordinate to the lien and pledge of net revenues for repayment of the Airport bonds. The Department had no outstanding balance on the loan payable as of September 30, 2010 or September 30, 2009.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 6. Revenue Bonds Payable and Long-Term Debt (Continued)

A summary of changes in long-term liabilities for the years ended September 30, 2010 and 2009 is as follows:

	Balance at October 1, 2009	Additions	Retirements	Reductions	Balance at September 30, 2010	Due Within One Year
Revenue bonds:						
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	45,410,000	-	-	-	45,410,000	-
Series 2001	15,510,000	-	-	7,535,000	7,975,000	7,975,000
OPEB	23,252	20,720	-	-	43,972	-
Termination benefits	-	42,076	-	-	42,076	22,117
Compensated absences payable	1,280,330	22,898	-	121,382	1,181,846	85,528
	<u>\$ 148,158,582</u>	<u>\$ 85,694</u>	<u>\$ -</u>	<u>\$ 7,656,382</u>	<u>140,587,894</u>	<u>\$ 8,082,645</u>
Less current maturities					8,082,645	
Long-term portion					132,505,249	
Add unamortized bond premium					1,102,496	
Less unamortized loss on refunding					(1,028,587)	
Total					<u>\$ 132,579,158</u>	
	Balance at October 1, 2008	Additions	Retirements	Reductions	Balance at September 30, 2009	Due Within One Year
Revenue bonds:						
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	45,410,000	-	-	-	45,410,000	-
Series 2001	22,735,000	-	7,225,000	-	15,510,000	7,535,000
OPEB	-	23,252	-	-	23,252	-
Compensated absences payable	1,250,049	55,116	-	24,835	1,280,330	118,445
	<u>\$ 155,330,049</u>	<u>\$ 78,368</u>	<u>\$ 7,225,000</u>	<u>\$ 24,835</u>	<u>148,158,582</u>	<u>\$ 7,653,445</u>
Less current maturities					7,653,445	
Long-term portion					140,505,137	
Add unamortized bond premium					1,433,950	
Less unamortized loss on refunding					(1,325,228)	
Total					<u>\$ 140,613,859</u>	

Palm Beach County Department of Airports

Notes to Financial Statements

Note 6. Revenue Bonds Payable and Long-Term Debt (Continued)

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

Year Ending September 30,	Principal	Interest	Total
2011	\$ 7,975,000	\$ 7,194,312	\$ 15,169,312
2012	10,270,000	6,729,581	16,999,581
2013	10,995,000	6,118,212	17,113,212
2014	11,645,000	5,467,312	17,112,312
2015	12,500,000	4,773,143	17,273,143
2016-2020	13,630,000	20,148,534	33,778,534
2021-2025	15,810,000	15,967,493	31,777,493
2026-2030	19,620,000	11,589,150	31,209,150
2031-2035	25,035,000	6,033,525	31,068,525
2036-2037	11,840,000	562,826	12,402,826
	<u>\$ 139,320,000</u>	<u>\$ 84,584,088</u>	<u>\$ 223,904,088</u>

Note 7. Other Receivable

In May 2001, the County entered into termination agreements with Merrill Lynch Capital Services ("MLCS") to terminate its interest rate swap agreements. On July 3, 2002 the Department of Airports paid \$2,477,800 to terminate the agreement related to the Series 2002 bonds. In conjunction with the termination of the swap agreement related to the Series 2002 bonds, MLCS 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 receivable and a reduction of the loss on swap termination. At September 30, 2010 and 2009, the net receivable was \$598,717 (less current portion of \$120,173 and net of discount of \$89,315) and \$712,268 (less current portion of \$113,550 and net of discount of \$128,661), respectively.

Note 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") administrated 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 issues 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.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 8. Defined Benefit Pension Plan (Continued)

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 9.85% 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, 2010 and 2009 were approximately \$860,000 and \$850,000, respectively, and were equal to the required contributions for each year.

Note 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 \$4.329 million and \$4.108 million for the years ended September 30, 2010 and 2009, respectively. In addition, the Department of Airports 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 Solid Waste Authority for the years ended September 30, 2010 and 2009 totaled approximately \$436,000 and \$365,000, respectively. At September 30, 2010 and 2009, there was no receivable from other funds and departments of Palm Beach County and \$300,567 and \$1,399,015, 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 from the Sheriff's Department was approximately \$7.6 million and \$7.4 million for the years ended September 30, 2010 and 2009, respectively. The Department of Airports also contracts with the Fire-Rescue Department for fire-rescue service at Palm Beach International Airport. The cost of these services was approximately \$5.51 million and \$6.31 million for the years ended September 30, 2010 and 2009, respectively.

Note 10. Major Customers

A significant portion of the Department of Airports' earnings and revenues are directly or indirectly attributed to the activity of a number of 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.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 10. Major Customers (Continued)

Major airlines; based on this criterion, are as follows:

Airline	Percent of Activity Based Upon Enplaned Passengers	
	Years Ended September 30,	
	2010	2009
Delta Airlines, Inc. (includes Northwest Airlines)	25.3%	24.3%
Jet Blue Airways Corporation	19.2%	19.2%
US Airways, Inc.	14.9%	15.0%
Southwest Airlines Company	13.7%	13.7%
Continental Airlines, Inc.	13.4%	13.6%
American Airlines, Inc.	5.8%	5.4%
AirTran Airways	5.0%	5.8%
Others	2.7%	3.0%
	<u>100.00%</u>	<u>100.00%</u>

Note 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.

Risk Management

The Department of Airports covers risk of loss for natural disasters through the purchase of commercial insurance. In the last three years, none of the settlements have exceeded the Department of Airports insurance coverage.

The Department of Airports participates in the County-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department of Airports are based on actuarial estimates of the amounts needed to pay prior and current year claims. Premiums paid by the County were \$1,816,000 and \$1,845,000 for the years ended September 30, 2010 and 2009, respectively. 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, 2010 and 2009, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 11. Commitments and Contingencies (Continued)

Contract Commitments

The Department of Airports has several uncompleted design and construction contracts for improvements to the airport system. At September 30, 2010 and 2009, the remaining commitment on these uncompleted contracts was \$8,727,161 and \$11,815,241, respectively, which is summarized as follows:

	Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
2010	\$ 59,251,869	\$ 47,776,695	\$ 173,330	\$ 8,727,161
2009	\$ 79,997,305	\$ 65,250,168	\$ 226,828	\$ 11,815,241

Note 12. Other Post-Employment Benefits

Government Accounting Standards ("GASB Statement No. 45"), *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* ("OPEB"), was effective for the Department of Airports beginning with its year ending September 30, 2008. This Statement improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of services and provides information about actuarial accrued liabilities associated with OPEB and whether, and to what extent, progress is being made in funding the plan.

Pursuant to Section 112.0801, Florida Statutes, the Department of Airports is mandated to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100% of the blended (active and retiree combined) equivalent premium rates. The blended rates provide an implicit subsidy for retirees because on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 12. Other Post-Employment Benefits (Continued)

As determined by an actuarial valuation, the County records a Net OPEB obligation in its government-wide financial statements related to the implicit subsidy. The Department participates in the County's plan on an allocation basis. See the County's Comprehensive Annual Financial Report for disclosures relating to the funding policy, funding status, funding progress and actuarial methods and assumptions. Based on the Net OPEB allocation applicable to the Department, the following table reflects the components of the annual OPEB cost and obligation for the year ended September 30, 2010:

Annual required contribution (ARC)	\$	35,000
Interest on net OPEB obligation		670
Adjustment to annually required contributions		4,497
Annual OPEB cost		<u>40,167</u>
Contributions made		<u>(19,447)</u>
Increase in net OPEB obligation		20,720
Net OPEB obligation – beginning of year		23,252
Net OPEB obligation – end of year	\$	<u><u>43,972</u></u>

The Department of Airports Net OPEB obligation as of September 30, 2009, is reported on the Statement of Net Assets



**Independent Auditor's Report
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 of America, the statement of net assets of the Palm Beach County, Florida Department of Airports as of September 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 28, 2011.

In connection with our audit, nothing came to our attention that caused us to believe that the Palm Beach County, Florida Department of Airports failed to comply 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.

McGladrey & Pullen, LLP

West Palm Beach, Florida
March 28, 2011



**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Board of County Commissioners
Palm Beach County, Florida

We have audited the accompanying statement of net assets of the Palm Beach County, Florida Department of Airports (the "Department") as of September 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and correct on a timely basis.

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

Compliance and Other Matters

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

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

McGladrey & Pullen, LLP

West Palm Beach, Florida
March 28, 2011