McGladrey & Pullen
Certified Public Accountants

Palm Beach County, Florida
Department of Airports

Financial Report
09.30.2008

Contents

McGladrey & Pullen
Certified Public Accountants

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, 2008 and 2007, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, 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, 2008 and 2007, and its change 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 report dated March 16, 2009, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 16, 2009

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, 2008. 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 2008 results showed a 4.9% decrease in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,330,820.

Fiscal year 2007 results showed a 2.9% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,502,394.

The following table shows a summary of various activities:

	2008	2007	2006
Enplanements	3,330,820	3,502,394	3,404,628
% Increase/(Decrease)	(4.90)%	2.87%	(3.31%)
Air Carrier Operations	69,573	72,051	67,045
% Increase/(Decrease)	(3.44)%	7.47%	(3.86%)
Landed Weight	4,168,600	4,359,597	4,289,454
% Increase/(Decrease)	(4.38)%	1.64%	(5.68%)
Cargo Tons	16,134	16,250	19,340
% Increase/(Decrease)	(0.71)%	(15.98)%	(0.90%)
Parking Transactions	1,075,948	1,207,926	1,275,944
% Increase/(Decrease)	(10.93)%	(5.33)%	(8.47%)

Financial Operations Highlights

Financial impacts are highlighted as follows:

Changes between 2008 and 2007

- Operating revenues decreased by 2%, dropping from $66 million to $64 million. The major component was a decrease in parking revenues of $1 million due to decreased parking transactions caused by declining passenger traffic. Various other revenue categories remained unchanged or slightly declined from the prior year.

- Operating expenses increased by 9%, increasing $3.8 million to $44.7 million in fiscal year 2008. General and Administrative expenses increased by 12% due to the leasehold purchase of Specialty Restaurants for approximately $750,000. Maintenance expense increased by 14%, increasing approximately $758,000 to $6.3 million; the increase was largely attributable to significant roadway repairs made during the fiscal year. Salary and benefits increased 9%, increasing approximately $944,000 to $11.3 million; this is a result of cost of living and benefit increases plus the addition of 9 positions in the prior fiscal year which were not hired until late fiscal year 2007.

- 2008 Operating income after depreciation was a loss of $2.6 million compared to a gain of $5.1 million in 2007. This was due to decreased revenues and increased expenses as discussed above plus an increase in depreciation and amortization expense of $2.3 million over the prior year.

Changes between 2007 and 2006

- Operating revenues rose by 3%, increasing from $64 million to $66 million. Components include an increase in parking revenues of $1 million and an increase in landing fee revenue of $400,000. Both revenue increases were attributable to rate increases over the prior year.

- Operating expenses increased by 3%, totaling $41 million in fiscal year 2007. Maintenance expenses increased by 11% due to additional equipment maintenance (loading bridges, baggage systems, escalators, vehicles) and additional janitorial costs due to increased terminal areas to maintain.

- Operating income after depreciation remained at $5.1 million.

- Nonoperating revenues from Passenger Facility Charges ("PFC") increased from $9.4 million to $10.7 million.

- The change in net assets for fiscal year 2008 totaled $6.4 million.

	2008	2007	2006
Operating revenues	$ 64,473,001	$ 66,038,260	$ 64,225,057
Operating expenses	44,732,030	40,944,345	39,729,764
Operating income before depreciation and amortization and other nonoperating income and expenses	19,740,971	25,093,915	24,495,293
Depreciation and amortization	22,368,839	20,012,057	19,399,196
Operating income (loss)	(2,627,868)	5,081,858	5,096,097
Other nonoperating income and expenses, net including capital contributions and transfers and special items	9,032,360	19,547,649	3,000,534
Change in net assets	$ 6,404,492	$ 24,629,507	$ 8,096,631

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 $321 million at September 30, 2008 and $315 million at September 30, 2007. A condensed summary of the Department's net assets at September 30 is shown below:

	2008	2007	2006
Assets:			
Current and other assets	$ 107,528,415	$ 137,710,274	$ 178,362,677
Capital assets	384,958,843	361,665,189	296,222,910
Total assets	492,487,258	499,375,463	474,585,587
Liabilities:			
Current and other liabilities	23,213,265	29,328,902	22,330,018
Long-term debt outstanding	148,116,561	155,293,621	162,132,136
Total liabilities	171,329,826	184,622,523	184,462,154
Net Assets:			
Invested in capital assets, net of debt	236,336,509	204,190,735	183,413,340
Restricted	42,249,029	58,584,293	49,064,442
Unrestricted	42,571,894	51,977,912	57,645,651
Total net assets	$ 321,157,432	$ 314,752,940	$ 290,123,433

A significant portion of the Department's net assets each year (71% at September 30, 2008) 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 (13% at September 30, 2008) 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 (16% at September 30, 2008) may be used to meet any of the Department's ongoing obligations.

Financial Position, 2008 versus 2007

Current assets decreased in 2008 due to the completion of the long-term parking garage, reducing cash balances in the 2006 construction trust fund. Capital assets increased as a result of the completion of this project and other major construction projects. Liabilities decreased as major construction contracts were completed during the year as well. As a result, total net assets increased by $6.4 million over the prior year.

Financial Position, 2007 versus 2006

Current and other assets decreased in 2007 due to the construction of the long-term parking garage which reduced cash balances. The increase in capital assets is a result of the construction in progress amounts accumulated from that construction project.

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 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 for the past three fiscal years and the 2009 budgeted rates are as follows:

	2009 Budget	2008	2007	2006
Landing fee (per 1,000 lbs MGLW)	$1.204	$1.163	$1.108	$1.032
Average annual terminal rate (per square foot)	59.39	55.74	55.92	58.78
Apron fee rental (annual, per linear foot)	272.53	240.81	251.17	199.82
Loading bridge rental (annual rate)	62,642	61,008	66,249	68,333
(includes preconditioned air and 400 htz power systems)				
Airline cost per enplanement	6.88	6.20	5.93	6.32

Factors impacting the Airline sector and PBIA traffic

The airline sector was greatly impacted by fuel prices during the first three quarters of calendar year 2008. Oil prices during the fiscal year peaked at approximately $145 per barrel, an increase of 100% over the price one year prior. During the last quarter of 2008, fuel prices have decreased significantly, however fuel remains a volatile component for airlines going forward. Air carriers responded to these increases by increasing ticket prices, adding user fees, and reducing service. These responses impacted the air travel demand at PBIA, reducing the amount of passenger traffic.

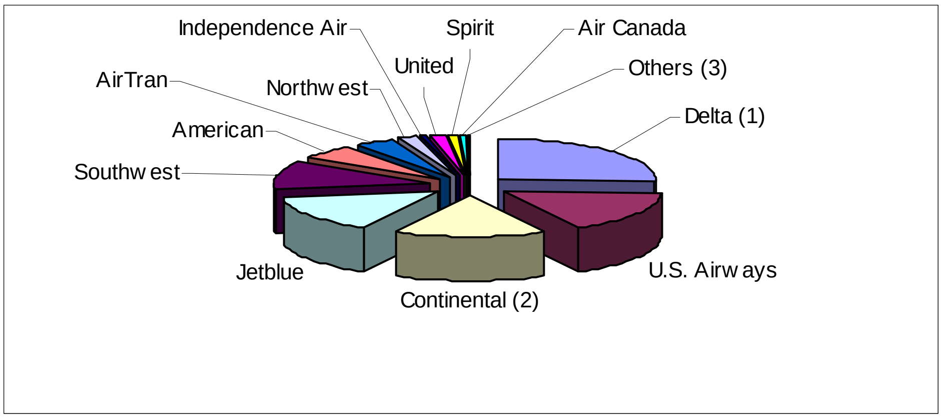
The increase in fuel costs directly lead to a bankruptcy filing by Frontier Airlines. Frontier ceased operations at several airports, including PBIA, in the spring of 2008 as a direct result. The Department was paid for all rentals and fees incurred by Frontier through a Letter of Credit provided by Frontier as required by the Department.

While current fuel prices have relaxed, the decline in economic conditions has also directly impacted the airline sector by reducing demand for air travel. Airlines have responded to declining demand by reducing operations nationwide and at PBIA; fiscal year 2008 airline operations at PBIA decreased by 3.4%. As a result of these factors, passenger traffic declined by 4.9% in fiscal 2008. In months subsequent to fiscal year 2008, passenger declines have continued and declined further. Management expects the trend of passenger declines to continue in the short term.

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 in 2008 and 2007 was 1.41% and 1.94%, respectively. United leases approximately 7,350 square feet of the terminal space; this represents 3.9% of available preferential and exclusive use area.

Airline Market Share and Passenger Information

Total passenger traffic is presented below for fiscal year 2008 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2007:

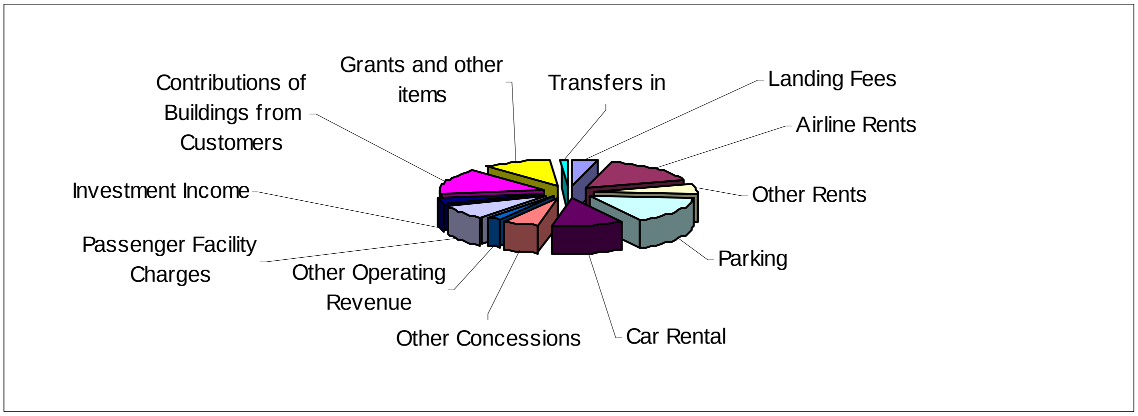


	2008	Change from 2007	% Change from 2007
Delta (1)	1,449,909	(129,091)	(8)%
Jetblue	1,212,661	10,545	1%
U.S. Airways	936,072	(203,138)	(18)%
Continental (2)	997,740	(37,934)	(4)%
Southwest	852,830	13,814	2%
AirTran	439,866	43,084	11%
American	306,725	(14,865)	(5)%
United	121,614	(46,972)	(28)%
Northwest	94,508	(24,668)	(21)%
Spirit	69,321	(8,967)	(11)%
Sun Country	34,648	34,648	100%
Air Canada	32,749	(12,879)	(28)%
Others (3)	82,979	40,768	97%
Total	6,631,622	(335,655)	(5)%

Airline Consolidation Information:
(1) Delta includes Delta and Comair
(2) Continental includes Continental and Gulfstream
(3) Others include Frontier, Bahamas Air, Westjet, Gojet, Gold Transportation, Chalk's, and Atlantic Southeast

Revenues

The following chart and table summarize revenues for the year ended September 30, 2008:

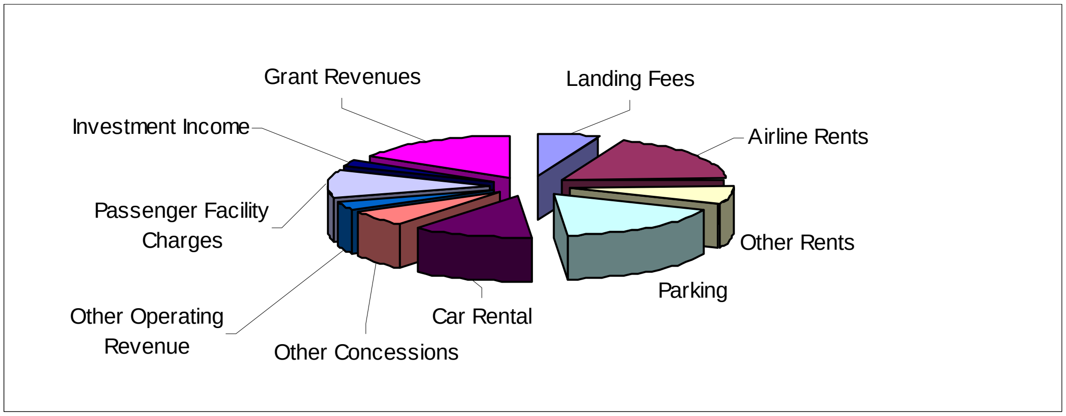


	2008	Percent of Total	Increase/ (Decrease) from 2007	% Increase/ (Decrease) from 2007
Operating:				
Landing fees	$ 5,117,187	5.8%	$ 184,714	4%
Airline rents	14,314,147	16.3%	(234,462)	(2)%
Other rents	8,037,025	9.1%	40,093	1%
Parking	16,716,606	19.0%	(1,022,033)	(6)%
Car rental concessions	11,653,051	13.3%	(56,056)	(0)%
Other concessions	6,230,286	7.1%	(168,967)	(3)%
Other operating revenue	2,404,299	2.7%	(308,548)	(11)%
Total operating revenues	64,472,601	73.3%	(1,565,659)	(2)%
Other Sources:				
Passenger facility charges	9,865,458	11.2%	(798,423)	(7)%
Investment income	4,724,506	5.4%	(1,004,208)	(18)%
Contributions of assets	3,518,676	4.0%	3,518,676	-
Grants and other items	5,334,952	6.1%	(2,938,688)	(35)%
Transfers in	-	0.0%	(28,033)	-
Total other sources	23,443,592	26.7%	(1,250,676)	(5)%
Total	$ 87,916,193	100.0%	$ (2,816,335)	(3)%

Parking revenue decreased approximately $1 million due to decreased parking transactions caused by declines in passenger volume. Passenger facility charges and airline rents also decreased due to declines in passenger volume. Landing fees increased due to increased rates.

Revenues

The following chart and table summarize revenues for the year ended September 30, 2007:



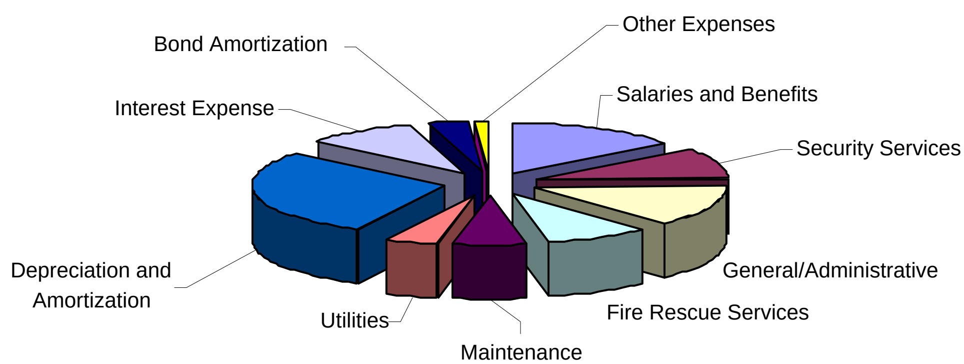
	2007	Percent of Total	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
Operating:				
Landing fees	$ 4,932,473	5%	$ 428,168	10%
Airline rents	14,548,609	16%	(1,091,628)	(7)%
Other rents	7,996,932	9%	419,548	6%
Parking	17,738,639	20%	1,036,176	6%
Car rental concessions	11,709,107	13%	143,336	1%
Other concessions	6,399,253	7%	572,512	10%
Other operating revenue	2,713,247	3%	305,090	13%
Total operating revenues	66,038,260	73%	1,813,202	3%
Other Sources:				
Passenger facility charges	10,663,881	12%	1,232,464	13%
Investment income	5,728,714	6%	1,851,558	48%
Contributions of assets	-	0%	(15,578,438)	-
Grants and other items	8,313,640	9%	(3,143,905)	(27)%
Transfers in	28,033	0%	(1,026,967)	-
Total other sources	24,734,268	27%	(16,665,288)	(40)%
Total	$ 90,772,528	100%	$ (14,852,086)	(14)%

Parking revenue increased approximately $1 million due to an increase in parking rates during the prior fiscal year, providing fiscal year 2007 with a full 12 months of rate increase versus a partial year of rate increase in fiscal year 2006. Landing fees increased due to increased rates.

Management's Discussion and Analysis

Expenses

The following chart and table summarize expenses for the year ended September 30, 2008:

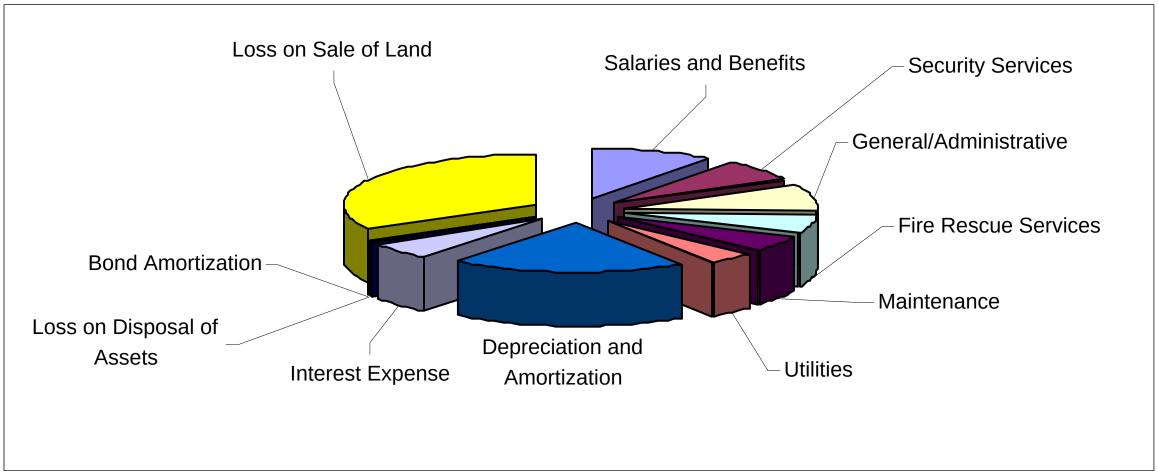


	2008	Percent of Total	Increase/ (Decrease) from 2007	% Increase/ (Decrease) from 2007
Operating:				
Salaries and benefits	$ 11,320,057	16%	$ 944,407	9%
Security services	7,576,732	11%	557,687	8%
General/administrative	9,078,008	13%	1,003,020	12%
Fire rescue services	6,209,550	9%	144,214	2%
Maintenance	6,340,408	9%	758,120	14%
Utilities	4,207,275	6%	380,237	10%
Total operating	44,732,030	62%	3,787,685	9%
Depreciation and amortization	22,368,839	31%	2,356,782	12%
Nonoperating:				
Interest expense	4,656,440	6%	(377,133)	(7)%
Bond amortization	139,926	0%	(13,120)	(9)%
Total nonoperating	4,796,366	38%	(390,253)	(8)%
Total expenses	$ 71,897,235	100%	$ 5,754,214	9%

General and administrative costs increased by $1,003,022 or 12% due to the purchase of the Specialty Restaurants Leasehold for approximately $750,000. Salaries and benefits increased by $944,407 or 9% due to a cost of living and benefits adjustments, along with several positions were filled at the very end of fiscal year end 2007 therefore there was a full year of expense incurred by the Department.

Expenses

The following chart and table summarize expenses for the year ended September 30, 2007:



	2007	Percent of Total	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
Operating:				
Salaries and benefits	$ 10,375,650	16%	$ 357,744	4%
Security services	7,019,045	11%	195,296	3%
General/administrative	8,074,988	12%	(570,823)	-7%
Fire rescue services	6,065,336	9%	287,736	5%
Maintenance	5,582,288	8%	745,404	15%
Utilities	3,827,038	6%	199,224	5%
Total operating	40,944,345	62%	1,214,581	3%
Depreciation and amortization	20,012,057	30%	612,861	3%
Nonoperating:				
Interest expense	5,033,573	8%	(403,064)	-7%
Loss on disposal of assets	-	0%	(573,020)	-100%
Bond amortization	153,046	0%	(22,318)	-13%
Loss on sale of land	-	0%	(32,214,001)	-100%
Total nonoperating	5,186,619	38%	(33,212,403)	-86%
Total expenses	$ 66,143,021	100%	$ (31,384,961)	-32%

Maintenance expenses increased by 15% due to additional equipment maintenance and additional janitorial costs due to increased terminal areas to maintain.

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:

	2008	2007	2006
Cash flow from operating activities	$ 21,473,738	$ 25,658,694	$ 22,685,310
Cash flow from investing activities	4,825,885	5,824,505	18,194,332
Cash flow from noncapital financing	18,954	(219,600)	1,223,704
Cash flow from capital and related financing activities	(56,132,679)	(70,917,171)	39,681,766
Net (decrease) increase in cash and cash equivalents	(29,814,102)	(39,653,572)	81,785,112
Cash and cash equivalents:			
Beginning of year	128,857,669	168,511,241	86,726,129
End of year	$ 99,043,567	$ 128,857,669	$ 168,511,241

Capital Acquisitions and Construction Activities

During 2008, the Department expended $49.6 million on capital activities. Completed projects during 2008 totaling $115 million were transferred from construction-in-progress to their respective capital accounts. The major project during fiscal year 2008 was construction of an additional long-term parking garage opened in January of 2008. The major completed projects and acquisitions were:

Long-Term Parking Garage Addition	$72.88 million
Department of Airports Administration Building	13.81 million
Terminal Signage	3.22 million

During 2007, the Department expended $79.0 million on capital activities. Completed projects during 2007 totaling $3.9 million were transferred from construction-in-progress to their respective capital accounts. The major completed projects and acquisitions were:

Terminal Loading Bridges	$2.27 million
Land Acquisition for Noise Abatement	2.05 million

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

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

Long-Term Debt

The Department had outstanding long-term debt of $147.0 million and $154.3 million as of September 30, 2008 and 2007. 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 2008:

	Balance at October 1, 2007	Additions	Reductions	Balance at September 30, 2008
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	29,525,000	-	6,790,000	22,735,000
	$ 160,870,000	$ -	$ 6,790,000	154,080,000
Less current maturities				7,225,000
Long-term portion				146,855,000
Add unamortized premium				1,818,518
Less unamortized loss on refunding				(1,672,783)
Total				$ 147,000,735

The following table reflects the debt activities that occurred during Fiscal Year 2007:

	Balance at October 1, 2006	Additions	Reductions	Balance at September 30, 2007
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	36,040,000	-	6,515,000	29,525,000
	$ 167,385,000	$ -	$ 6,515,000	160,870,000
Less current maturities				6,790,000
Long-term portion				154,080,000
Add unamortized premium				2,240,125
Less unamortized loss on refunding				(2,055,842)
Total				$ 154,264,283

The County has not issued any new revenue bonds during fiscal years 2007 and 2008 and the changes in debt in 2007 and 2008 represent payment of the required annual principal amounts per the maturity schedules. See Note 5, Revenue Bonds and Loan Payable in the notes to the financial statements for additional information.

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, 2008 has collected $132,857,595 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 capital expenditures from PFC sources totaling $115,134,361 million over the same time period. As of September 30, 2008, the Department was authorized to collect $144.6 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 2008 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 weakness in recent months, including fewer travelers and room nights, according to Palm Beach County Tourist Development reports. The major cause cited by hotel managers was poor economic conditions.

The Department of Airport's 2009 operating expense budget totals $48.94 million, not including interfund transfers and reserves, which represents an increase of 1.80% over the prior year budget. The Department's 2009 budget includes an increase of 2 positions for a total complement of 161 positions. The new positions are maintenance functions. The Department is aggressively seeking to reduce or control costs to help offset revenue declines. 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 2009 terminal rates average $59.39 per square foot; landing fees are $1.204 per 1,000 lbs. of landed weight. Fiscal 2008 terminal rates average $55.74 per square foot; landing fees are $1.116 per 1,000 lbs. of landed weight. Airline cost per enplanement for fiscal year 2009 is expected to increase to approximately $6.88 compared to $6.20 for fiscal year 2008. The Department implemented a general aviation landing fee, effective November 2008 to help recover airfield costs, thereby reducing the impact to commercial airlines for costs associated with the airfield cost center.

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, 2008 and 2007

Assets	2008	2007
Current Assets:		
Pooled cash and cash equivalents	$ 46,695,560	$ 47,784,861
Pooled cash and cash equivalents, restricted	13,088,266	17,183,017
Nonpooled cash and cash equivalents	53,581	153,351
Accounts receivable, less allowance for doubtful accounts of $358,794 and $392,220 in 2008 and 2007, respectively	862,151	1,138,965
Government grants receivable	1,115,171	1,200,320
Due from other governments	86,514	10,829
Current portion of other receivable	107,292	101,379
Due from other funds	256,147	275,101
Inventories	989,563	982,480
Other current assets	1,038,117	1,073,506
Total current assets	64,292,362	69,903,809
Noncurrent Assets:		
Restricted assets:		
Pooled cash and cash equivalents	19,540,444	33,128,410
Cash with fiscal agent	19,665,716	30,608,030
Accounts receivable, less allowance for doubtful accounts of $1,500 and $1,500 in 2008 and 2007, respectively	1,421,275	1,175,640
Total restricted assets	40,627,435	64,912,080
Capital assets:		
Land	95,231,826	94,512,411
Construction in progress	30,769,763	95,585,874
Depreciable capital assets, net of accumulated depreciation	258,957,254	171,566,904
Total capital assets	384,958,843	361,665,189
Other noncurrent assets:		
Deferred bond issuance costs	1,896,351	2,074,826
Other receivable, net of current portion and discount of $174,266 and $225,783 in 2008 and 2007, respectively	712,267	819,559
Total other noncurrent assets	2,608,618	2,894,385
Total noncurrent assets	428,194,896	429,471,654
Total assets	$ 492,487,258	$ 499,375,463

See Notes to Financial Statements.

	2008	2007
Liabilities and Net Assets		
Current liabilities:		
Accounts and contracts payable	$ 5,884,976	$ 9,107,254
Compensated absences payable	134,223	100,354
Unearned revenue	1,190,112	650,638
Due to other funds	282,525	105,894
Due to State of Florida	1,631,301	1,635,369
Due to other governments	442,079	63,159
Other current liabilities	559,783	483,217
Total current liabilities	10,124,999	12,145,885
Current liabilities payable from restricted assets:		
Accounts and contracts payable	1,186,867	5,314,737
Security deposits	332,798	297,954
Due to State of Florida	310,000	310,000
Interest payable on revenue bonds	4,033,601	4,220,326
Loan payable	-	250,000
Current maturities of revenue bonds	7,225,000	6,790,000
Total current liabilities payable from restricted assets	13,088,266	17,183,017
Long-term liabilities:		
Compensated absences payable	1,115,826	1,029,338
Revenue bonds payable (less current maturities)	147,000,735	154,264,283
Total long-term liabilities	148,116,561	155,293,621
Total liabilities	171,329,826	184,622,523
Net assets:		
Invested in capital assets, net of related debt	236,336,509	213,728,692
Restricted:		
Passenger facility charges	21,092,356	36,835,101
Debt service	8,118,837	7,294,261
Renewal and replacement	1,008,169	2,642,313
Operation and maintenance	7,676,757	7,073,585
Capital outlay	4,352,910	4,739,033
	42,249,029	58,584,293
Unrestricted	42,571,894	42,439,955
Total net assets	$ 321,157,432	$ 314,752,940

Palm Beach County Department of Airports

Statements of Revenues, Expenditures and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Rentals	$ 22,351,172	$ 22,545,541
Concessions	34,599,943	35,846,999
Landing fees	5,117,187	4,932,473
Other	2,404,699	2,713,247
Total operating revenues	64,473,001	66,038,260
Operating expenses:		
Employee compensation and benefits	11,320,057	10,375,650
General and administrative	9,078,008	8,074,988
Maintenance	6,340,408	5,582,288
Contracted security services	7,576,732	7,019,045
Contracted fire-rescue services	6,209,550	6,065,336
Utilities	4,207,275	3,827,038
Total operating expenses before depreciation and amortization	44,732,030	40,944,345
Operating income before depreciation and amortization	19,740,971	25,093,915
Depreciation and amortization	22,368,839	20,012,057
Operating income (loss)	(2,627,868)	5,081,858
Nonoperating revenues (expenses):		
Investment income	4,724,506	5,728,714
Passenger facility charges	9,865,458	10,663,881
Grant revenue	-	975,550
Interest expense	(4,656,440)	(5,033,573)
Gain/(loss) on disposal of capital assets	77,493	20,324
Amortization of revenue bond costs	(139,926)	(153,046)
Other revenues (expenses)	(118,340)	776,397
Total nonoperating revenues (expenses), net	9,752,751	12,978,247
Income before contributions and transfers	7,124,883	18,060,105
Airport improvement capital grants	5,415,799	6,541,369
Capital contributions of buildings from other funds	3,518,676	-
Transfers of buildings and improvements to other Funds	(9,654,866)	-
Transfers in from other funds	-	28,033
Change in net assets	6,404,492	24,629,507
Net assets at beginning of year	314,752,940	290,123,433
Net assets at end of year	$ 321,157,432	$ 314,752,940

See Notes to Financial Statements.

Palm Beach County Department of Airports

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Cash received from customers	$ 65,301,773	$ 67,858,381
Cash payments to vendors for goods and services	(15,472,195)	(15,346,028)
Cash payments to employees for services	(11,080,098)	(10,587,648)
Cash payments to other funds	(17,341,024)	(16,278,116)
Other receipts	65,282	12,105
Net cash provided by operating activities	21,473,738	25,658,694
Cash Flows From Noncapital Financing Activities:		
Transfer (to) from other County funds	18,954	(219,600)
Net cash (used for) provided by noncapital financing activities	18,954	(219,600)
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(59,623,374)	(79,002,277)
Proceeds from sale of capital assets	81,758	84,341
Insurance proceeds	-	776,397
Repayment on loan payable	(250,000)	-
Principal repayment on revenue bonds	(6,790,000)	(6,515,000)
Passenger facility charges received	9,610,327	9,509,241
Receipt of capital grants and reimbursements	5,681,775	8,830,019
Interest and fiscal charges paid	(4,843,165)	(4,599,892)
Net cash used for capital and related financing activities	(56,132,679)	(70,917,171)
Cash Flows From Investing Activities:		
Receipt of repayments on other receivables	101,379	152,896
Interest received on investments	4,724,506	5,671,609
Net cash provided by investing activities	4,825,885	5,824,505
Net decrease in cash and cash equivalents	(29,814,102)	(39,653,572)
Cash and cash equivalents at beginning of year (including $80,919,457 and $123,216,354 in restricted accounts)	128,857,669	168,511,241
Cash and cash equivalents at end of year (including $52,294,426 and $80,919,457 in restricted accounts)	$ 99,043,567	$ 128,857,669

(Continued)

Palm Beach County Department of Airports

Statements of Cash Flows (Continued)
Years Ended September 30, 2008 and 2007

	2007	2007
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:		
Operating income (loss)	$ (2,627,868)	$ 5,081,858
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	22,368,839	20,012,057
Provision for doubtful accounts	(33,426)	(997,131)
Changes in assets and liabilities:		
Accounts receivable	319,736	1,874,604
Inventories	(7,083)	(5,858)
Other current assets	35,388	(93,911)
Accounts and contracts payable	470,280	35,444
Compensated absences payable	120,357	16,099
Unearned revenues	539,474	(43,149)
Due to other funds	176,631	(6,080)
Other current liabilities	76,566	(216,010)
Security deposits	34,844	771
Total adjustments	24,101,606	20,576,836
Net cash provided by operating activities	$ 21,473,738	$ 25,658,694
Supplemental Disclosures of Noncash Capital and Related Financing Activities		
Amortization of deferred issuance costs	$ 178,475	$ 193,579
Amortization of premium on bonds	421,608	469,471
Contributions of capital assets from other funds	3,518,676	-
Net capital assets transferred to other funds	(9,654,866)	-
Disposition of fully depreciated capital assets	7,984,866	3,867,625

See 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.

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. 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.

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

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. 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 and $48,905,527 at September 30, 2008 and 2007, respectively, 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 $11,908,846 and $11,520,966 at September 30, 2008 and 2007, respectively, and the retention of the operation and maintenance reserve of $8,009,555 and $7,371,000 at September 30, 2008 and 2007, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately $3,591,000 and $4,066,000 at September 30, 2008 and 2007, 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 cash and cash equivalents of approximately $19,683,000 and $35,680,000 at September 30, 2008 and 2007, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

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 $8,074,920 and $8,452,000 for the fiscal year ended September 30, 2008 and 2007, respectively, which $3,145,987 and $3,418,000 was recorded as capitalized interest.

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

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.

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 nonoperating revenue in the financial statements.

On October 9, 2007, the Federal Aviation Administration approved an amendment to the PFC collection authorization revising the total collection authority to $144.6 million. The amendment also allowed the Department to increase the PFC fee from $3.00 to $4.50 effective July 2008.

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 when title is transferred to the Department.

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2008 and 2007:

	2008	2007
County Internal Investment Pool	$ 79,324,270	$ 98,096,288
Cash with fiscal agent	19,665,716	30,608,030
Cash in bank	52,481	152,251
Petty cash	1,100	1,100
Total	$ 99,043,567	$ 128,857,669
Unrestricted cash and cash equivalents	$ 46,749,141	$ 47,938,212
Restricted cash and cash equivalents	52,294,426	80,919,457
Total	$ 99,043,567	$ 128,857,669

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 $1.8 billion and $1.75 billion as of September 30, 2008 and 2007, respectively, of which approximately 88% and 86%, respectively, 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. Almost all remaining amounts at September 30, 2008 and 2007 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, both of which are considered 2a-7 like pools. 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.

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

The Department of Airports has $19,665,716 on deposit with a fiscal agent as required by the bond documents. As of September 30, 2008, 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	$ 19,965,716	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.

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, 2007	Additions	Retirements	Net Transfers between Funds	CIP Transfer	Balance at September 30, 2008
Depreciable capital assets						
Buildings	$ 230,574,583	$ -	$ -	$ (8,650,915)	$ 91,916,645	$ 313,840,313
Improvements other than buildings	168,134,185	-	-	-	7,473,045	175,607,230
Furniture, fixtures and equipment	30,628,535	1,269,906	8,018,669	-	14,608,120	38,487,892
Intangible – easement rights	13,740,457	14,500	-	-	-	13,754,957
Total depreciable capital assets	443,077,760	1,284,406	8,018,669	(8,650,915)	113,997,810	541,690,392
Less accumulated depreciation						
Buildings	119,156,505	13,323,526	-	(3,132,153)	-	129,347,878
Improvements other than buildings	126,145,871	6,362,806	-	-	-	132,508,677
Furniture, fixtures and equipment	24,080,806	2,338,633	8,014,404	-	-	18,405,035
Intangible – easement rights	2,127,674	343,874	-	-	-	2,471,548
Total accumulated depreciation	271,510,856	22,368,839	8,014,404	(3,132,153)	-	282,733,138
Depreciable capital assets, net of accumulated depreciation	171,566,904	(21,084,433)	4,265	(5,518,762)	113,997,810	258,957,254
Nondepreciable capital assets						
Land	94,512,411	-	-	(617,428)	1,336,843	95,231,826
Construction in progress	95,585,874	50,518,542	-	-	(115,334,653)	30,769,763
Total capital assets	$ 361,665,189	$ 29,434,109	$ 4,265	$ (6,136,190)	$ -	$ 384,958,843

Note 3. Capital Assets (Continued)

	Balance at October 1, 2006	Additions	Retirements	Transfers	Balance at September 30, 2007
Depreciable capital assets					
Buildings	$ 227,571,691	$ -	$ 70,268	$ 3,073,160	$ 230,574,583
Improvements other than buildings	167,371,156	-	26,098	789,127	168,134,185
Furniture, fixtures and equipment	30,380,414	4,149,914	3,901,793	-	30,628,535
Intangible – easement rights	13,740,457	-	-	-	13,740,457
Total depreciable capital assets	439,063,718	4,149,914	3,998,159	3,862,287	443,077,760
Less accumulated depreciation					
Buildings	107,564,006	11,622,854	30,357	-	119,156,505
Improvements other than buildings	119,530,479	6,641,490	26,098	-	126,145,871
Furniture, fixtures and equipment	26,554,295	1,404,201	3,877,690	-	24,080,806
Intangible – easement rights	1,784,162	343,512	-	-	2,127,674
Total accumulated depreciation	255,432,942	20,012,057	3,934,145	-	271,510,856
Depreciable capital assets, net of accumulated depreciation	183,630,776	(15,862,143)	64,014	3,862,287	171,566,904
Nondepreciable capital assets					
Land	92,217,590	2,294,821	-	-	94,512,411
Construction in progress	20,374,544	79,073,617	-	(3,862,287)	95,585,874
Total capital assets	$ 296,222,910	$ 65,506,295	$ 64,014	$ -	$ 361,665,189

Note 4. Leases, as Lessor

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 $5,231,800 and $5,876,000 for the years ended September 30, 2008 and 2007, respectively. All Department of Airports' leases are operating leases.

Note 4. Leases, as Lessor (Continued)

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

Year Ending September 30,	
2009	$ 34,342,419
2010	24,757,583
2011	24,686,468
2012	8,634,638
2013	8,281,555
Thereafter	65,178,551
	$ 165,881,214

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2008 and 2007, is as follows:

	2008	2007
Buildings	$ 195,283,279	$ 203,851,020
Less accumulated depreciation	104,756,544	100,951,950
	90,526,735	102,899,070
Land	5,547,813	5,742,182
Property held for lease, net	$ 96,074,548	$ 108,641,252

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 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. The amount to be reimbursed to the FDOT related to the advanced funds is $1,624,400 as of September 30, 2008 and 2007, because the ten-year period has expired. Management of the Department of Airports are currently in negotiations with the FDOT regarding the ultimate disposition of this advance.

Note 6. Revenue Bonds and Loan Payable

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2008 and 2007:

	2008	2007
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.	22,735,000	29,525,000
	154,080,000	160,870,000
Less current portion	7,225,000	6,790,000
	146,855,000	154,080,000
Unamortized bond premium	1,818,518	2,240,125
Unamortized loss on refunding	(1,672,783)	(2,055,842)
Long-term portion	$ 147,000,735	$ 154,264,283

Series 2006 A and B

Series 2006A, $69,080,000 Airport System Revenue Bonds, dated May 17, 2006; proceeds are to be used for the construction of an additional 3,200 space long-term parking garage. Construction 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.

Note 6. Revenue Bonds and Loan Payable (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, and in no way constitutes an indebtedness to the County. Debt service coverage in 2008 was 1.78 times the aggregate debt service and is not estimated to be less than 1.46 times during the life of the outstanding Bonds. Principal and interest paid for the current year and Net Revenues Available for Debt Service were approximately $15.3 and $27.3 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, 2008 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, 2008 is $9,340,000.

Note 6. Revenue Bonds and Loan Payable (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, constructions, 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 (approximately 2.37% at September 30, 2008) 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, 2008; the balance at September 30, 2007 was $250,000.

Note 6. Revenue Bonds and Loan Payable (Continued)

A summary of changes in long-term liabilities for the years ended September 30, 2008 and 2007 is as follows:

	Balance at October 1, 2007	Additions	Retirements	Reductions	Balance at September 30, 2008	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	29,525,000	-	6,790,000	-	22,735,000	7,225,000
Note payable	250,000	-	250,000	-	-	-
Compensated absences payable	1,129,692	148,912	-	28,555	1,250,049	134,223
	$ 162,249,692	$ 148,912	$ 7,040,000	$ 28,555	155,330,049	$ 7,359,223
Less current maturities					7,359,223	
Long-term portion					147,970,826	
Add unamortized bond premium					1,818,518	
Less unamortized loss on refunding					(1,672,783)	
Total					$ 148,116,561	

	Balance at October 1, 2006	Additions	Retirements	Reductions	Balance at September 30, 2007	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	36,040,000	-	6,515,000	-	29,525,000	6,790,000
Loan payable	250,000	-	-	-	250,000	-
Compensated absences					-	
payable	1,113,593	120,526	-	104,427	1,129,692	100,354
	$ 168,748,593	$ 120,526	$ 6,515,000	$ 104,427	162,249,692	$ 6,890,354
Less current maturities					6,890,354	
Long-term portion					155,359,338	
Add unamortized bond premium					2,240,125	
Less unamortized loss on refunding					(2,055,842)	
Total					$ 155,543,621	

Note 6. Revenue Bonds and Loan Payable (Continued)

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

Year Ending September 30,	Principal	Interest	Total
2009	$ 7,225,000	$ 7,922,705	$ 15,147,705
2010	7,535,000	7,570,993	15,105,993
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
2014-2018	31,850,000	22,816,412	54,666,412
2019-2023	15,135,000	17,627,609	32,762,609
2024-2028	17,795,000	13,458,775	31,253,775
2029-2033	22,710,000	8,419,400	31,129,400
2034-2037	22,590,000	2,219,786	24,809,786
	$ 154,080,000	$ 100,077,785	$ 254,157,785

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, 2008 and 2007, the net receivable was $819,559 (less current portion of $107,292 and net of discount of $174,266) and $920,938 (less current portion of $101,379 and net of discount of $225,783), 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.

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, 2008, 2007 and 2006 were approximately $853,000, $781,000 and $651,000, 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 $4.082 million and $3.495 million for the years ended September 30, 2008 and 2007, 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, 2008 and 2007 totaled approximately $263,000 and $264,000, respectively. At September 30, 2008 and 2007, there was $256,147 and $275,101 receivable from other funds and departments of Palm Beach County and $282,525 and $105,894, 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 $7.58 million and $7.02 million for the years ended September 30, 2008 and 2007, 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 $6.21 million and $6.06 million for the years ended September 30, 2008 and 2007, 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.

Note 10. Major Customers (Continued)

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

	Percent of Activity Based Upon Enplaned Passengers Years Ended September 30,	
	2008	2007
Airline		
Delta Airlines, Inc.	21.9%	21.6%
Jet Blue Airways Corporation	18.3%	17.2%
Continental Airlines, Inc.	15.0%	13.5%
US Airways, Inc.	14.1%	16.3%
Southwest Airlines Company	12.9%	12.1%
AirTran Airways	6.6%	5.8%
American Airlines, Inc.	4.6%	4.7%
Others	6.6%	8.8%
	100.00%	100.00%

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 coverages.

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 to the County were $1,693,000 and $1,499,000 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

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, 2008 and 2007, the remaining commitment on these uncompleted contracts was $9,433,454 and $37,165,498, respectively, which is summarized as follows:

	Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
2008	$ 95,145,354	$ 83,741,946	$ 42,805	$ 9,433,454
2007	$ 108,694,871	$ 59,994,135	$ 5,190,242	$ 37,165,498

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.

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, 2008:

Annual required contribution (ARC)	$	42,000
Interest on net OPEB obligation		-
Adjustment to annually required contributions		-
Annual OPEB cost		42,000
Contributions made		(90,124)
Increase in net OPEB obligation		(48,124)
Net OPEB obligation – beginning of year		-
Net OPEB obligation – end of year	$	(48,124)

The Department of Airports Net OPEB obligation as of September 30, 2008, is reported on the Statement of Net Assets as "Other Current Assets."

McGladrey & Pullen
Certified Public Accountants

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, 2008, 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 16, 2009.

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 16, 2009

McGladrey & Pullen
Certified Public Accountants

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, 2008, 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 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies 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*.

We also noted certain matters involving the Department of Airports that we reported to management of the County in a separate letter dated March 16, 2009.

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 16, 2009