

Palm Beach County, Florida Department of Airports

Financial Report
September 30, 2023

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RSM US LLP

Independent Auditor's Report

Honorable Board of County Commissioners
Palm Beach County, Florida

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Palm Beach County, Florida Department of Airports (the Department) as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department, as of September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and major fund of Palm Beach County, Florida (the County) that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the County, as of September 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the Department's proportionate share of the net pension liability for the Florida Retirement System Pension Plan (FRS) and Health Insurance Subsidy Pension Plan (HIS), schedules of contributions for the FRS and HIS plans, and schedule of changes in total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024, 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 and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Department's internal control over financial reporting and compliance.

RSM US LLP

West Palm Beach, Florida
March 28, 2024

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited)

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 years ended September 30, 2023 and 2022. 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 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 2023 results showed a 15.5% increase in enplanement (departing passengers). Enplanement for the fiscal year totaled 3,768,705.

Fiscal year 2022 results showed a 55.00% increase in enplanement (departing passengers). Enplanement for the fiscal year totaled 3,262,870.

The following table shows a summary of various activities:

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| Enplanements | 3,768,705 | 3,262,870 | 2,137,960 | 2,105,505 | 3,352,828 |
| % Change | 15.5% | 55.0% | 1.5% | (37.2)% | 2.6% |
| Air Carrier Operations | 56,916 | 51,620 | 41,312 | 40,580 | 53,918 |
| % Change | 10.3% | 27.2% | 1.8% | (24.7)% | (3.6)% |
| Landed Weight | 4,278,075 | 3,835,445 | 3,032,890 | 3,022,573 | 3,913,451 |
| % Change | 11.5% | 26.9% | 0.3% | (22.8)% | 0.4% |
| Cargo Tons | 30,328 | 30,559 | 31,155 | 29,469 | 29,046 |
| % Change | (0.8)% | 3.7% | 5.7% | 1.5% | 8.2% |
| Parking Transactions | 731,687 | 614,539 | 374,448 | 422,672 | 737,104 |
| % Change | 19.1% | 45.4% | (11.4)% | (42.7)% | (1.2)% |

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited) (Continued)

Financial Operations Highlights

Financial impacts are highlighted as follows:

Changes Between 2023 and 2022:

- Compared to the prior year, operating revenues increased to \$90.6 million (an increase of \$11.5 million). Revenue increases were primarily driven by increased passenger growth in the areas of parking, other concessions, Airline terminal rent, and car rental concessions. Cumulatively, ground transportation revenues accounted for \$38 million of revenue.
- Investment earnings increased by \$8,837,426. (488% increase) for a total of \$10.65 million. Investments are managed by the Clerk of the Circuit Courts under County approved guidelines.
- Compared to the prior year, operating expenses increased 15% or \$8.1 million. Contracted Security costs increased by 6% for a total cost of \$10 million. Contracted Fire Rescue Services cost increased by 6% for a total cost of \$7.9 million.

Changes Between 2022 and 2021:

- Compared to the prior year, operating revenues increased to \$79 million (an increase of \$12.8 million). Revenue increases were primarily driven by increased passenger growth in the areas of parking, other concessions, Airline terminal rent, and car rental concessions. Cumulatively, ground transportation revenues accounted for \$34.8 million of revenue.
- Investment earnings increased by \$370,720. (26% increase) for a total of \$1.81 million. Investments are managed by the Clerk of the Circuit Courts under County approved guidelines.
- Compared to the prior year, operating expenses increased 8% or \$3.9 million. Contracted Security costs increased by 1% for a total cost of \$9.5 million. Contracted Fire Rescue Services cost increased by 4% for a total cost of \$7.5 million.
- The Department was awarded approximately \$23.77 million in FAA ARPA funding. Under the FAA ARP funding, an airport owner/sponsor may use these funds for cost related to operating and maintenance cost to combat the spread of pathogens at the airport, and debt service payments. Providing rent and minimum annual guarantee (MAG) relief for Concessions at Primary airports.

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited) (Continued)

The change in net position for fiscal year 2023 totaled approximately \$46.8 million; the change in net position for fiscal year 2022 totaled approximately \$33.4 million.

| | (As Restated) | | |
|--|----------------------|----------------------|----------------------|
| | 2023 | 2022 | 2021 |
| Operating revenues | \$ 90,635,891 | \$ 79,089,910 | \$ 66,193,918 |
| Operating expenses | 61,668,152 | 53,538,615 | 49,559,365 |
| Operating income before depreciation and amortization | 28,967,739 | 25,551,295 | 16,634,553 |
| Depreciation and amortization | 25,505,871 | 23,496,149 | 24,046,819 |
| Operating loss | 3,461,868 | 2,055,146 | (7,412,266) |
| Other nonoperating income (expenses), net, including capital contributions and transfers | 43,358,375 | 31,403,002 | 18,102,687 |
| Change in net position | \$ 46,820,243 | \$ 33,458,148 | \$ 10,690,421 |

Financial Position Summary

Net position may serve over time as a useful indicator of the Department's financial position. The Department's assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$626.2 million at September 30, 2023, and \$579.3 million at September 30, 2022. FY 2021 column on all tables throughout was restated due to the effects of adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. A condensed summary of the Department's net position at September 30, is shown below:

| | (As Restated) | | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| | 2023 | 2022 | 2021 |
| Assets: | | | |
| Current and other assets | \$ 319,901,922 | \$ 294,210,867 | \$ 255,374,621 |
| Capital assets | 452,176,385 | 437,263,863 | 435,817,338 |
| Total assets | 772,078,307 | 731,474,730 | 691,191,959 |
| Deferred outflows of resources | 3,298,149 | 3,658,598 | 2,822,065 |
| Liabilities: | | | |
| Current and other liabilities | 26,301,979 | 26,770,950 | 22,366,921 |
| Long-term debt outstanding | 70,107,458 | 72,102,351 | 68,147,589 |
| Total liabilities | 96,409,437 | 98,873,301 | 90,514,510 |
| Deferred inflows of resources | 52,764,846 | 56,878,097 | 57,575,732 |
| Net position: | | | |
| Net investment in capital assets | 382,431,759 | 375,289,926 | 365,353,776 |
| Restricted | 79,369,571 | 73,912,921 | 64,103,608 |
| Unrestricted | 164,400,843 | 130,179,083 | 116,466,398 |
| Total net position | \$ 626,202,173 | \$ 579,381,930 | \$ 545,923,782 |

A significant portion of the Department's net position each year (61% at September 30, 2023) 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.

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited) (Continued)

An additional portion of the Department's net position (13% at September 30, 2023) 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 position (26% at September 30, 2023) may be used to meet any of the Department's ongoing obligations.

Financial Position, 2023 Versus 2022

Total assets increased by \$40.6 million in 2023 due to the construction of new capital assets, improved cash position and improved net position. Unrestricted cash and cash equivalents increased by \$14.2 million; liabilities decreased by \$2.4 million. Total net position increased by \$46.8 over the prior year.

Financial Position, 2022 Versus 2021

Total assets increased by \$40.2 million in 2022 due to the construction of new capital assets, improved cash position and improved net position. Unrestricted cash and cash equivalents increased by \$24.3 million; liabilities increased by \$8.3 million. Total net position increased by \$33.4 over the prior year.

Signatory Airline Agreement

The Department and Signatory air carriers operate under a negotiated Signatory Airline Agreement (the Agreement) which establishes how the Signatory Airlines (Airlines) will be assessed rates and charges for the use of Palm Beach International Airport (PBIA). The Agreement serves as the basis for calculating landing fees, terminal rental rates, baggage and gate equipment charges and apron fees taking into account costs associated with the operation, maintenance and debt service of the airfield and terminal. Landed weight and rentable square footage serve as the units for landing fees and terminal rents, respectively. Under the current Agreement, airfield revenues are credited towards the Airline's net requirement (residual rate setting methodology.) The terminal cost center expenditure requirements are wholly payable by airline rents (compensatory rate setting methodology.) 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 ensures the Department is in a position to meet all financial requirements of the Bond resolution regarding debt service coverage requirements.

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited) (Continued)

The Department, effective October 1, 2019, is operating under a five-year agreement covering fiscal years 2020 through 2024. All "Signatory Airlines" are defined earlier as "Airlines" under the prior agreement, which terminated September 30, 2019, have elected to continue with a new five-year signatory agreement, effective October 1, 2019. Signatory Airlines, as of September 30, 2020, include: JetBlue, Delta, American, Southwest, United, Bahamas Air, FedEx and UPS. The table below shows landing fees and terminal rates net of revenue sharing distributions for fiscal years 2020, 2021, 2022 and 2023.

| | 2024 Projected | 2023 | 2022 | 2021 | 2020 |
|--|-------------------|-----------|-----------|-----------|-----------|
| Signatory landing fee (per 1,000 lbs MGLW) | \$ 0.99 | \$ 0.75 | \$ 0.45 | \$ 1.19 | \$ 1.36 |
| Signatory airline annual terminal rate (per square foot) | \$ 37.57 | \$ 35.49 | \$ 23.02 | \$ 41.93 | \$ 42.69 |
| Revenue from airlines (in thousands) | \$ 25,778 | \$ 28,363 | \$ 23,413 | \$ 14,981 | \$ 16,068 |
| Baggage handling system fee per bag | \$ 1.44 | \$ 1.88 | \$ 1.52 | \$ 2.19 | \$ 2.32 |
| Enplanements (in thousands) | 3,777 | 3,768 | 3,262 | 2,137 | 2,105 |
| Airline cost per enplanement (passenger airlines) | \$ 3.92 | \$ 3.75 | \$ 3.06 | \$ 7.01 | \$ 7.63 |
| Landed weight of commercial aircraft | 4,282 | 4,278 | 3,835 | 3,033 | 3,023 |
| Signatory airline terminal leasehold area (square feet) | 171,746 | 171,014 | 165,245 | 167,447 | 162,463 |

Factors Impacting the Airline Sector and PBI Traffic

At PBI, fiscal year 2023 total passenger traffic was up by 15.2% compared to fiscal year 2022 with more than 7.5 million total passengers for the year. Fiscal year 2023 seat capacity increased 11.3% and total aircraft operations increased 0.5% over fiscal year 2022.

Management anticipates continued incremental growth in passenger traffic and seat capacity in 2024 as PBI continues to work closely with our airline and tourism partners to support efforts to stimulate demand and enhance service through increased frequencies and new service.

Service changes announced for fiscal year 2024 include:

New routes:

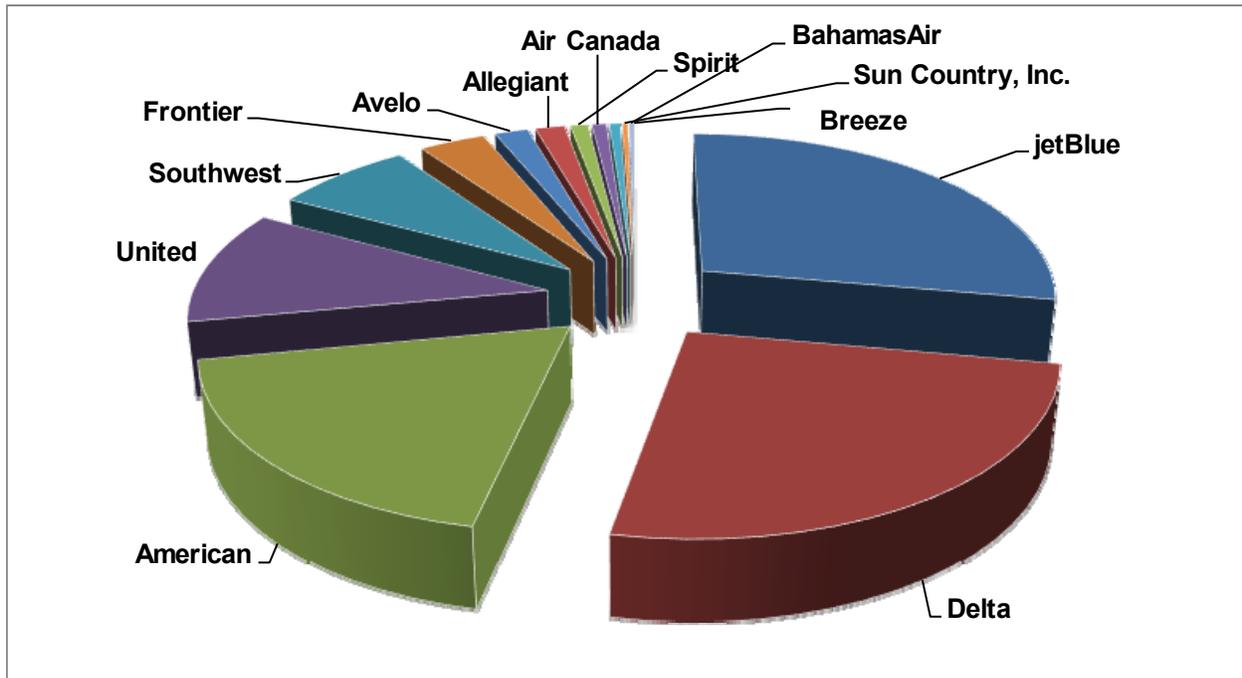
1. Delta Air Lines – White Plains (HPN)
2. Frontier Airlines – San Juan, Puerto Rico (SJU)
3. Silver Airways – Marsh Harbour, Bahamas (MHH); Nassau, Bahamas (NAS); Pensacola (PNS); Tallahassee (TLH); Tampa (TPA)
4. Southwest Airlines – Dallas-Love (DAL); St. Louis (STL)
5. Spirit Airlines – New York-La Guardia (LGA)
6. United Airlines – Denver (DEN)

Palm Beach County, Florida Department of Airports

Management’s Discussion and Analysis (Unaudited) (Continued)

Airline Market Share and Passenger Information

Total passenger traffic (enplaned and deplaned) is presented below for fiscal year 2023 by airline, showing market share at PBI and comparisons to fiscal year 2022:



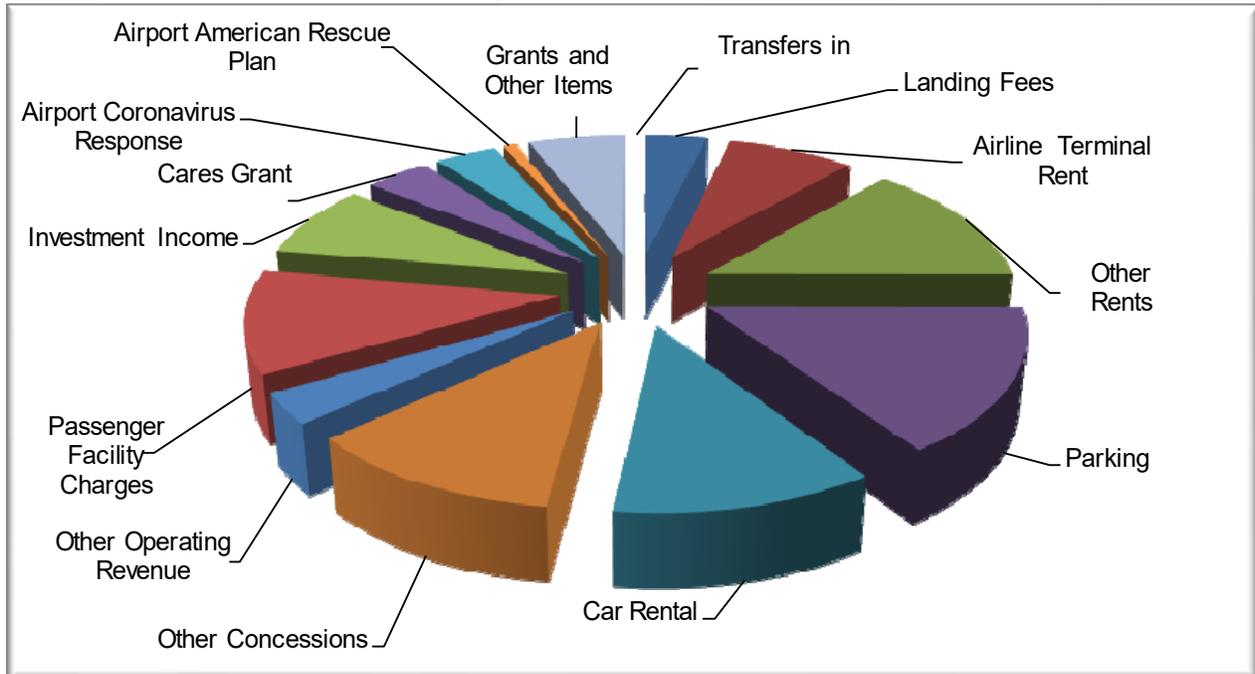
| | 2023 | Change From 2022 | % Change From 2022 |
|-------------------|------------------|---------------------|-----------------------|
| jetBlue | 2,093,258 | 348,154 | 20% |
| Delta | 1,905,895 | 245,710 | 15% |
| American | 1,412,261 | 92,445 | 7% |
| United | 824,671 | 53,538 | 7% |
| Southwest | 551,512 | 149,416 | 37% |
| Frontier | 263,572 | (60,763) | (19)% |
| Avelo | 133,511 | 76,148 | 133% |
| Allegiant | 117,794 | (4,199) | (4)% |
| Spirit | 70,708 | 18,701 | 100% |
| Air Canada | 57,421 | 29,869 | 108% |
| Breeze | 42,893 | 33,897 | 377% |
| Sun Country, Inc. | 22,043 | 1,126 | 5% |
| BahamasAir | 21,443 | 7,094 | 49% |
| Total | 7,516,982 | 991,136 | 15.2% |

Palm Beach County, Florida Department of Airports

Management’s Discussion and Analysis (Unaudited) (Continued)

Revenues

The following chart and table summarize revenues for the fiscal year ended September 30, 2023:



| | 2023 | Percent of Total | Change From 2022 | % Change From 2022 |
|---------------------------------|-----------------------|------------------|----------------------|--------------------|
| Operating revenues: | | | | |
| Landing fees | \$ 5,167,736 | 4% | \$ 1,164,753 | 29% |
| Airline terminal rent | 10,619,734 | 8% | 2,884,025 | 37% |
| Other rental revenue | 18,244,789 | 13% | 3,185,968 | 21% |
| Parking | 20,987,731 | 16% | 2,771,716 | 15% |
| Car rental concessions | 15,552,871 | 11% | 186,870 | 1% |
| Other concessions | 15,588,639 | 11% | 1,326,306 | 9% |
| Other operating revenue | 4,474,391 | 3% | 26,343 | 1% |
| Total operating revenues | 90,635,891 | 66% | 11,545,981 | 15% |
| Other sources: | | | | |
| Passenger facility charges | 14,928,638 | 11% | 2,798,210 | 23% |
| Investment income | 10,650,036 | 8% | 8,837,426 | 488% |
| Cares Grant | 5,277,367 | 4% | (5,304,636) | (50)% |
| Airport Coronavirus Response | 5,103,734 | 4% | 4,327,834 | 100% |
| Airport American Rescue Plan | 1,119,424 | 1% | (315,199) | 100% |
| Grants and other items | 8,059,007 | 6% | 1,496,188 | 23% |
| Transfers in | 30,004 | 0% | 30,004 | 0% |
| Total other sources | 45,168,210 | 34% | 11,869,827 | 36% |
| Total revenues | \$ 135,804,101 | 100% | \$ 23,415,808 | 21% |

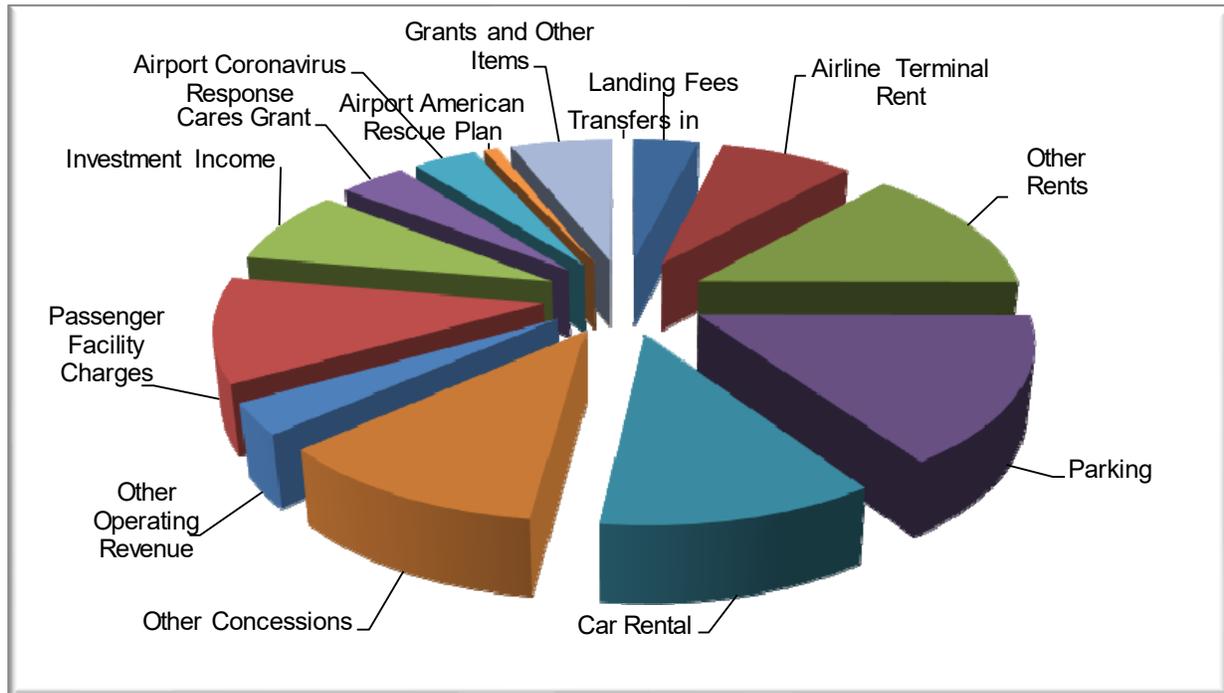
Landing fees totaling \$5.1 million increased by 29% and airline terminal rent totaling \$10.6 million increased by 37% due to increased cost to the airlines. Other rental revenue totaling \$18.2 million increased by 21%. Concession revenue from parking, car rental and other concessions totaling \$52.1 million increased by 9% because of increased passenger traffic.

Palm Beach County, Florida Department of Airports

Management’s Discussion and Analysis (Unaudited) (Continued)

Revenues (Continued)

The following chart and table summarize revenues for the fiscal year ended September 30, 2022:



| | 2022 | Percent of Total | Change From 2021 | % Change From 2021 |
|---------------------------------|-----------------------|------------------|----------------------|--------------------|
| Operating revenues: | | | | |
| Landing fees | \$ 4,002,983 | 3% | \$ (2,672,826) | (40)% |
| Airline terminal rent | 7,735,709 | 7% | (2,001,320) | (21)% |
| Other rental revenue | 15,058,821 | 13% | 1,061,987 | 8% |
| Parking | 18,216,015 | 16% | 8,012,872 | 79% |
| Car rental concessions | 15,366,001 | 14% | 3,738,630 | 32% |
| Other concessions | 14,262,333 | 13% | 4,754,997 | 50% |
| Other operating revenue | 4,448,048 | 4% | 1,652 | 0% |
| Total operating revenues | 79,089,910 | 70% | 12,895,992 | 19% |
| Other sources: | | | | |
| Passenger facility charges | 12,130,428 | 11% | 3,080,578 | 13% |
| Investment income | 1,812,610 | 2% | 370,720 | (44)% |
| Cares Grant | 10,582,003 | 9% | 2,319,706 | (24)% |
| Airport Coronavirus Response | 775,900 | 1% | (640,850) | 100% |
| Airport American Rescue Plan | 1,434,623 | 1% | 1,434,623 | 100% |
| Grants and other items | 6,562,818 | 6% | (764,374) | (6)% |
| Total other sources | 33,298,382 | 30% | 5,800,403 | (6)% |
| Total revenues | \$ 112,388,292 | 100% | \$ 18,696,395 | 2% |

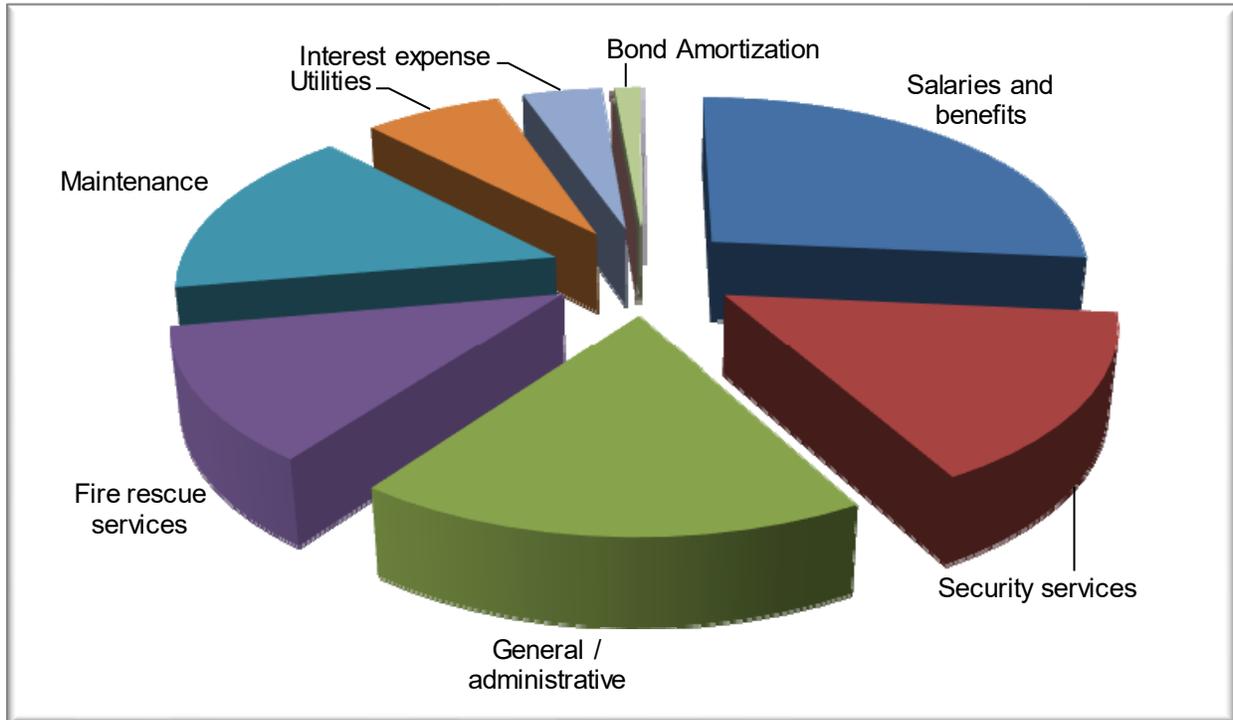
Landing fees totaling \$4 million decreased by 40% and airline terminal rent totaling \$7.7 million decreased by 21% due to lower cost to the airlines. Other rental revenue totaling \$15 million increased by 8%. Concession revenue from parking, car rental and other concessions totaling \$47.8 million increased by 52.7% because of increased passenger traffic.

Expenses

Palm Beach County, Florida Department of Airports

Management’s Discussion and Analysis (Unaudited) (Continued)

The following chart and table summarize expenses for the fiscal year ended September 30, 2023:



| | 2023 | Percent of Total | Change From 2022 | % Change From 2022 |
|--------------------------------------|----------------------|------------------|----------------------|--------------------|
| Operating expenses: | | | | |
| Salaries and benefits | \$ 17,234,898 | 19% | \$ 2,159,560 | 14% |
| Security services | 10,098,689 | 11% | 583,560 | 6% |
| General/administrative | 11,799,565 | 13% | 3,064,464 | 35% |
| Fire rescue services | 7,927,589 | 9% | 423,040 | 6% |
| Maintenance | 10,135,436 | 12% | 1,666,556 | 20% |
| Utilities | 4,471,975 | 5% | 232,357 | 5% |
| Total operating expenses | 61,668,152 | 69% | 8,129,537 | 15% |
| Depreciation and amortization | 25,505,871 | 29% | 2,009,722 | 9% |
| Nonoperating expenses: | | | | |
| Interest expense | 2,587,500 | 3% | (126,000) | (5)% |
| Bond amortization and other expenses | (830,765) | -1% | 40,455 | 5% |
| Transfers to other county funds | 53,100 | 0% | - | 0% |
| Total nonoperating expenses | 1,809,835 | 2% | (85,545) | (5)% |
| Total expenses | \$ 88,983,858 | 100% | \$ 10,053,714 | 13% |

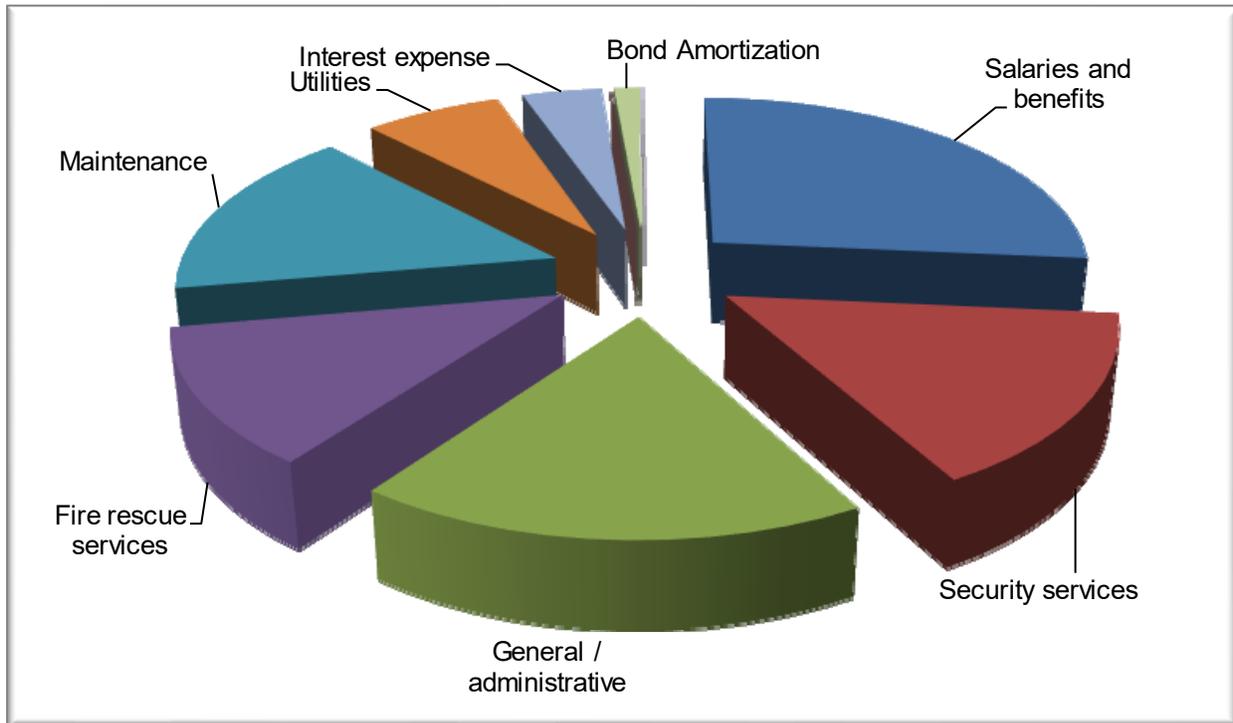
Compared to the prior year, operating expenses increased 15% or \$8.1 million. Contracted Security costs increased by 6% for a total cost of \$10 million. Contracted Fire Rescue Services cost increased by 6% for a total cost of \$7.9 million.

Palm Beach County, Florida Department of Airports

Management’s Discussion and Analysis (Unaudited) (Continued)

Expenses (Continued)

The following chart and table summarize expenses for the fiscal year ended September 30, 2022:



| | 2022 | Percent of Total | Change From 2020 | % Change From 2021 |
|--------------------------------------|----------------------|------------------|---------------------|--------------------|
| Operating expenses: | | | | |
| Salaries and benefits | \$ 15,075,338 | 19% | \$ 2,168,271 | 17% |
| Security services | 9,515,129 | 12% | 116,444 | 1% |
| General/administrative | 8,735,101 | 11% | 923,256 | 12% |
| Fire rescue services | 7,504,549 | 10% | 272,632 | 4% |
| Maintenance | 8,468,880 | 11% | (211,910) | (2)% |
| Utilities | 4,239,618 | 5% | 710,557 | 20% |
| Total operating expenses | 53,538,615 | 68% | 3,979,250 | 8% |
| Depreciation and amortization | 23,496,149 | 30% | (550,670) | (2)% |
| Nonoperating expenses: | | | | |
| Interest expense | 2,713,500 | 3% | (120,000) | (4)% |
| Bond amortization and other expenses | (871,220) | -1% | 38,529 | 4% |
| Transfers to other county funds | 53,100 | 0% | (6,174) | (10)% |
| Total nonoperating expenses | 1,895,380 | 2% | (87,645) | (4)% |
| Total expenses | \$ 78,930,144 | 100% | \$ 3,340,935 | 4% |

Compared to the prior year, operating expenses increased 8% or \$3.9 million. Contracted Security costs increased by 1% for a total cost of \$9.5 million. Contracted Fire Rescue Services cost increased by 4% for a total cost of \$7.5 million.

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited) (Continued)

Summary of Cash Flow Activities

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

| | 2023 | 2022 | (As Restated) 2021 |
|---|-----------------------|-----------------------|-----------------------|
| Cash flows provided by operating activities | \$ 24,212,155 | \$ 29,934,575 | \$ 21,513,415 |
| Cash flows provided by investing activities | 10,650,034 | 1,812,610 | 1,441,889 |
| Cash flows provided by noncapital financing activities | 11,768,883 | 12,305,115 | 10,240,746 |
| Cash flows used in capital and related financing activities | (21,494,129) | (10,869,913) | (23,608,655) |
| Net change in cash and cash equivalents | 25,136,943 | 33,182,387 | 9,587,395 |
| Cash and cash equivalents: | | | |
| Beginning of year | 225,574,410 | 192,392,023 | 182,804,628 |
| End of year | <u>\$ 250,711,353</u> | <u>\$ 225,574,410</u> | <u>\$ 192,392,023</u> |

Capital Acquisitions and Construction Activities

During fiscal year 2023, the Department expended \$40.1 million on capital activities. Completed projects during fiscal year 2023 totaling \$54.2 million were transferred from construction-in-progress to their respective capital accounts. The major projects that were completed fiscal year 2023, are as follows:

| | |
|--|--------------|
| PBIA ARFF Facility Improvement | 1.9 million |
| PBIA Terminal Condensation & Duct Cleaning | 4.9 million |
| PBIA Public Address System | 5.6 million |
| PBIA Misc Taxiway Rehab F, G, H, M | 7.1 million |
| PBIA Taxiway C | 12.8 million |
| PBIA N. Terminal Remote Apron Rehab | 14.3 million |

During fiscal year 2022, the Department expended \$24.9 million on capital activities. Completed projects during fiscal year 2022 totaling \$1.1 million were transferred from construction-in-progress to their respective capital accounts. The major projects completed fiscal year 2022, are as follows:

| | |
|----------------------------------|------|
| West Common Properties | 735K |
| Long Term Garage | 223K |
| Airport Systems | 183K |
| Domestic Water Valve Replacement | 95K |
| Vehicle Service Road | 53K |

In general, acquisitions are funded using a variety of financing sources, including Federal Grants, State Grants, Airport revenues, Passenger Facility Charges and Revenue Bonds. See Note 3, Capital Assets, in the financial statements for additional information.

Palm Beach County, Florida Department of Airports

Management’s Discussion and Analysis (Unaudited) (Continued)

Long-Term Debt

The Department had outstanding long-term debt of approximately \$55.5 million and \$59 million as of September 30, 2023 and 2022, respectively. Both amounts are net of any current maturities, unamortized premiums or unamortized discounts. The following table reflects the debt activities that occurred during fiscal year 2023:

| | Balance at October 1, 2022 | Additions | Reductions | Balance at September 30, 2023 | Due Within One Year |
|-------------------------|----------------------------------|-------------|---------------------|-------------------------------------|---------------------------|
| Revenue bonds: | | | | | |
| Series 2016 | \$ 54,270,000 | \$ - | \$ 2,520,000 | \$ 51,750,000 | \$ 2,645,000 |
| | <u>\$ 54,270,000</u> | <u>\$ -</u> | <u>\$ 2,520,000</u> | <u>51,750,000</u> | <u>\$ 2,645,000</u> |
| Less current maturities | | | | 2,645,000 | |
| Long-term portion | | | | 49,105,000 | |
| Add unamortized premium | | | | 6,450,797 | |
| Total | | | | <u>\$ 55,555,797</u> | |

The following table reflects the debt activities that occurred during fiscal year 2022:

| | Balance at October 1, 2021 | Additions | Reductions | Balance at September 30, 2022 | Due Within One Year |
|-------------------------|----------------------------------|-------------|---------------------|-------------------------------------|---------------------------|
| Revenue bonds: | | | | | |
| Series 2006B | | \$ - | \$ - | \$ - | \$ - |
| Series 2016 | 56,670,000 | - | 2,400,000 | 54,270,000 | 2,520,000 |
| | <u>\$ 56,670,000</u> | <u>\$ -</u> | <u>\$ 2,400,000</u> | <u>54,270,000</u> | <u>\$ 2,520,000</u> |
| Less current maturities | | | | 2,520,000 | |
| Long-term portion | | | | 51,750,000 | |
| Add unamortized premium | | | | 7,336,379 | |
| Total | | | | <u>\$ 59,086,379</u> | |

See Note 5, Revenue Bonds Payable and Long-Term Obligations, in the notes to the financial statements for additional information.

Credit Ratings

The Department’s credit ratings currently stand at: Standard and Poor’s A+, Fitch A+ and Moody’s Investors Service A1; all agencies reported a stable outlook for the Department. Generally, the rating agencies cited the Department’s strengths to be strong debt coverage, robust liquidity, relatively low cost per enplanement, diversified air carrier mix and a diversified revenue stream. Rating agencies noted a mitigating weakness in the form of competition from other area airports. Potential investors are urged to read the full reports issued by the respective rating agencies.

Palm Beach County, Florida Department of Airports

Management's Discussion and Analysis (Unaudited) (Continued)

Passenger Facility Charges

The Department, as of September 30, 2023 and 2022, had a total collected balance of \$319,189,302 and \$304,798,074, respectively, 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 \$264,494,770 and \$254,069,880, respectively, over the same time period. As of September 30, 2023 and 2022, the Department was authorized to collect \$328,822,089 in PFC revenues. The Department is authorized to collect \$4.50 per enplaned passenger per FAA policy.

Economic Factors, Fiscal Year 2023 Budget and Airline Rates

- Compare to prior year, PBIA experienced a 10.3% increase in air carrier flight operations as of September 30, 2023. The increase in air carrier capacity resulted in an increase in variable revenue streams that are tied to passenger traffic, such as airline operational activity fees and revenues generated by passenger activity, such as car rentals and other airport concessions.
- The Department's fiscal year 2024 operating expense budget total \$71.9 million not including Interfund transfers and reserves, which represents an increase of 11% from the prior year budget. Pursuant to County requirements, contracts must be fully budgeted even though actual expenses are likely to be less, therefore, the Department expects actual expenditures for fiscal year 2024 to be approximately \$65 million. Operating revenues are budgeted at \$94.3 for fiscal year 2024.
- The fiscal year 2023 terminal rates averaged \$35.49 per square foot; landing fees were \$0.75 per 1,000 lbs. of landed weight. The fiscal year 2022 terminal rates averaged \$23.02 per square foot; landing fees were \$0.45 per 1,000 lbs. of landed weight. Airline cost per enplanement (CPE) in fiscal years 2023 and 2022 was \$3.75 and \$3.06, respectively. Management believes these CPE rates to be among the lowest in the State of Florida. Rates and cost per enplanement are stated net of estimated revenue sharing payouts to signatory airlines.
- The Coronavirus Response and Relief Supplemental (CRRSAA) Act (Public Law 116-260) was signed into law on December 27, 2020, to provide economic relief to eligible U.S. airports and eligible concessions to prevent, prepare for, and respond to the COVID-19 pandemic. The Federal Aviation Administration (FAA) has established the Airport Coronavirus Response Grant program (ACRGP) to distribute these funds in the form of grants to all airports that are part of the national airport system.
- The Department was awarded approximately \$23.77 million in FAA ARPA funding. Under the FAA ARP funding, an airport owner/sponsor may use these funds for cost related to operating and maintenance cost to combat the spread of pathogens at the airport, and debt service payments. Providing rent and minimum annual guarantee (MAG) relief for Concessions at Primary airports.

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 Debbie Duncanson, 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 dduncanson@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, Florida Department of Airports

**Statements of Net Position
September 30, 2023 and 2022**

| | 2023 | 2022 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Pooled cash and cash equivalents | \$ 163,756,302 | \$ 149,547,753 |
| Nonpooled cash and cash equivalents | 700 | 1,100 |
| Restricted pooled cash and cash equivalents | 82,482 | 72,868 |
| Restricted cash with fiscal agent | 3,926,108 | 3,876,750 |
| Accounts receivable, less allowance for doubtful accounts of \$308,431 and \$307,091 in 2023 and 2022, respectively | 2,180,720 | 2,471,196 |
| Lease receivables | 2,972,462 | 3,148,201 |
| Government grants receivable | 5,299,858 | 3,476,038 |
| Due from other funds | 122,784 | 129,912 |
| Inventories | 2,593,441 | 2,302,492 |
| Other current assets | 1,268,370 | 856,429 |
| Total current assets | 182,203,227 | 165,882,739 |
| Noncurrent assets: | | |
| Lease receivable | 52,416,023 | 55,388,485 |
| Restricted assets: | | |
| Pooled cash and cash equivalents | 19,910,544 | 19,085,041 |
| Nonpooled cash and cash equivalents | 63,035,217 | 52,990,898 |
| Accounts receivable | 2,336,911 | 863,704 |
| | 137,698,695 | 128,328,128 |
| Capital assets: | | |
| Land | 124,669,756 | 124,553,033 |
| Construction in progress | 71,932,558 | 85,809,894 |
| Depreciable capital assets, net of accumulated depreciation | 255,574,071 | 226,900,936 |
| Total capital assets | 452,176,385 | 437,263,863 |
| Total noncurrent assets | 589,875,080 | 565,591,991 |
| Total assets | 772,078,307 | 731,474,730 |
| Deferred outflows of resources: | | |
| Pensions | 2,613,918 | 2,905,529 |
| OPEB | 284,941 | 298,963 |
| Loss on revenue bond refunding | 399,290 | 454,106 |
| Total deferred outflows of resources | 3,298,149 | 3,658,598 |
| Total assets and deferred outflows of resources | \$ 775,376,456 | \$ 735,133,328 |

(Continued)

Palm Beach County, Florida Department of Airports

**Statements of Net Position (Continued)
September 30, 2023 and 2022**

| | 2023 | 2022 |
|---|-----------------------|-----------------------|
| Liabilities and Net Position | | |
| Current liabilities: | | |
| Accounts and contracts payable | \$ 17,776,212 | \$ 17,528,266 |
| Compensated absences payable | 158,425 | 123,569 |
| Unearned revenue | 3,570,031 | 4,314,738 |
| Due to other funds | 176,321 | 188,411 |
| Due to component unit | 779 | 415 |
| Other current liabilities | 418,351 | 475,691 |
| Total current liabilities | 22,100,119 | 22,631,090 |
| Current liabilities payable from restricted assets: | | |
| Security deposits | 263,109 | 263,109 |
| Interest payable on revenue bonds | 1,293,751 | 1,356,751 |
| Current maturities of revenue bonds | 2,645,000 | 2,520,000 |
| Total current liabilities payable from restricted assets | 4,201,860 | 4,139,860 |
| Long-term liabilities: | | |
| Compensated absences payable | 1,297,105 | 1,169,596 |
| Total OPEB liability | 519,759 | 522,251 |
| Net pension liability | 12,734,797 | 11,324,125 |
| Revenue bonds payable, less current maturities | 55,555,797 | 59,086,379 |
| Total long-term liabilities | 70,107,458 | 72,102,351 |
| Total liabilities | 96,409,437 | 98,873,301 |
| Deferred inflows of resources: | | |
| Pension | 504,877 | 472,418 |
| Leases | 52,198,178 | 56,342,949 |
| OPEB | 61,791 | 62,730 |
| Total deferred inflows of resources | 52,764,846 | 56,878,097 |
| Net position: | | |
| Net investment in capital assets | 382,431,759 | 375,289,926 |
| Restricted: | | |
| Passenger facility charges | 56,736,833 | 51,794,541 |
| Debt service | 2,632,704 | 3,053,452 |
| Renewal and replacement | 6,260,964 | 6,922,837 |
| Operation and maintenance | 11,551,983 | 10,152,011 |
| Capital outlay | 2,187,087 | 1,990,080 |
| | 79,369,571 | 73,912,921 |
| Unrestricted | 164,400,843 | 130,179,083 |
| Total net position | \$ 626,202,173 | \$ 579,381,930 |

See notes to financial statements.

Palm Beach County, Florida Department of Airports

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2023 and 2022**

| | 2023 | 2022 |
|--|-----------------------|-----------------------|
| Operating revenues: | | |
| Rentals | \$ 28,864,523 | \$ 22,794,530 |
| Concessions | 52,129,241 | 47,844,349 |
| Landing fees | 5,167,736 | 4,002,983 |
| Other | 4,474,391 | 4,448,048 |
| Total operating revenues | 90,635,891 | 79,089,910 |
| Operating expenses: | | |
| Employee compensation and benefits | 17,234,898 | 15,075,338 |
| General and administrative | 11,799,565 | 8,735,101 |
| Maintenance | 10,135,436 | 8,468,880 |
| Contracted security services | 10,098,689 | 9,515,129 |
| Contracted fire-rescue services | 7,927,589 | 7,504,549 |
| Utilities | 4,471,975 | 4,239,618 |
| Total operating expenses | 61,668,152 | 53,538,615 |
| Operating income before depreciation and amortization | 28,967,739 | 25,551,295 |
| Depreciation and amortization | 25,505,871 | 23,496,149 |
| Operating income | 3,461,868 | 2,055,146 |
| Nonoperating revenues (expenses): | | |
| Investment income | 10,650,036 | 1,812,610 |
| CARES Grant | 5,277,367 | 10,582,003 |
| Airport Coronavirus Response Grant Program (ARCP) | 5,103,734 | 775,900 |
| Airport American Rescue Plan | 1,119,424 | 1,434,623 |
| Interest expense | (2,587,500) | (2,713,500) |
| Amortization of deferred loss on refundings | (54,816) | (57,485) |
| Amortization of revenue bond premiums | 885,581 | 928,705 |
| Other revenues | 390,760 | 469,836 |
| Total nonoperating revenues (expenses), net | 20,784,586 | 13,232,692 |
| Income before contributions and transfers | 24,246,454 | 15,287,838 |
| Passenger facility charges | 14,928,638 | 12,130,428 |
| Airport improvement capital grants | 7,668,247 | 6,092,982 |
| Transfers from other county funds | 30,004 | - |
| Transfers to other county funds | (53,100) | (53,100) |
| Change in net position | 46,820,243 | 33,458,148 |
| Net position, beginning of year | 579,381,930 | 545,923,782 |
| Net position, ending | \$ 626,202,173 | \$ 579,381,930 |

See notes to financial statements.

Palm Beach County, Florida Department of Airports

Statements of Cash Flows
Years Ended September 30, 2023 and 2022

| | 2023 | 2022 |
|---|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 89,212,580 | \$ 82,284,617 |
| Cash payments to vendors for goods and services | (27,805,799) | (16,796,135) |
| Cash payments to employees for services | (15,269,496) | (14,449,680) |
| Cash payments to other funds | (21,925,130) | (21,104,227) |
| Net cash provided by operating activities | 24,212,155 | 29,934,575 |
| Cash flows from noncapital financing activities | | |
| Transfer from other county funds | 30,004 | - |
| Transfer to other county funds | (53,100) | (53,100) |
| Transfer pass through grants to Airport Tenants | - | (726,311) |
| Operating grants and other | 11,791,979 | 13,084,526 |
| Net cash provided by noncapital financing activities | 11,768,883 | 12,305,115 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (35,702,431) | (24,121,012) |
| Insurance proceeds | - | 839,355 |
| Proceeds from sale of capital assets | 89,358 | 55,309 |
| Principal repayment on revenue bonds | (2,520,000) | (2,400,000) |
| Passenger facility charges received | 13,445,017 | 12,903,280 |
| Receipt of capital grants and reimbursements | 5,844,427 | 4,626,655 |
| Interest and fiscal charges paid | (2,650,500) | (2,773,500) |
| Net cash used in capital and related financing activities | (21,494,129) | (10,869,913) |
| Cash flows provided by investing activities: | | |
| Interest and gains on investments | 10,650,034 | 1,812,610 |
| Net cash provided by investing activities | 10,650,034 | 1,812,610 |
| Net change in cash and cash equivalents | 25,136,943 | 33,182,387 |
| Cash and cash equivalents at beginning of year (including restricted accounts totaling \$76,025,557 for 2023 and \$67,238,108 for 2022) | 225,574,410 | 192,392,023 |
| Cash and cash equivalents at end of year (including restricted accounts totaling \$86,954,351 for 2023 and \$76,025,557 for 2022) | \$ 250,711,353 | \$ 225,574,410 |

(Continued)

Palm Beach County, Florida Department of Airports

**Statements of Cash Flows (Continued)
Years Ended September 30, 2023 and 2022**

| | 2023 | 2022 |
|---|----------------------|----------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 3,461,868 | \$ 2,055,146 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 25,505,871 | 23,496,149 |
| Other operating revenue | (986,621) | (1,093,020) |
| Changes in assets, liabilities and deferred inflows/outflows: | | |
| Accounts receivable | 300,889 | 1,671,742 |
| Due from other funds | 7,128 | (100,012) |
| Inventories | (290,949) | (223,348) |
| Other current assets | (411,941) | 150,935 |
| Accounts and contracts payable | (4,468,015) | 1,111,362 |
| Compensated absences payable | 162,365 | 26,056 |
| Unearned revenues | (744,707) | 2,718,564 |
| Due to other funds | (12,090) | (47,958) |
| Other liabilities | (56,976) | (272,234) |
| Security deposits | - | (2,567) |
| Deferred outflows of resources | 305,633 | (894,018) |
| Deferred inflows of resources | 31,520 | (6,054,831) |
| Net pension liability | 1,410,672 | 7,216,695 |
| Total OPEB liability | (2,492) | 175,914 |
| Total adjustments | 20,750,287 | 27,879,429 |
| Net cash provided by operating activities | \$ 24,212,155 | \$ 29,934,575 |

Supplemental disclosures of noncash capital and related financing activities:

| | | |
|---|------------|------------|
| Amortization of premium on bonds | \$ 885,581 | \$ 928,705 |
| Amortization of deferred advance refunding loss | 54,816 | 57,485 |
| Capital assets in accounts/contracts payable | 11,943,122 | 821,664 |
| Disposition of fully depreciated capital assets | 466,183 | 820,257 |
| Capital grants receivable | 4,503,821 | 3,275,275 |
| Operating grants receivable | 796,037 | 200,763 |
| Passenger facility charges receivable | 2,330,299 | 846,678 |

See notes to financial statements.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting entity: Palm Beach County (the County) is a chartered political subdivision of the State of Florida and is granted the power of self-governance 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, where applicable, cash flows, in conformity with accounting principles generally accepted in the United States.

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.

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 non-operating revenues or capital contributions. All expenses related to operating the Airport are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

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

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents and investments: 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 statements of net position and cash flows. The County's internal investment pool is valued at a combination of fair value and amortized cost as more fully described in the notes to the County financial statements. 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.

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.

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.

Capital assets: Capital assets are recorded at cost or, if donated, at the acquisition 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 \$5,000. Major renewals and betterments which are significant and add to the productive capacity or extend the useful life greater than one year 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:

| | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings | 5-40 |
| Improvements other than buildings | 5-20 |
| Furniture, fixtures and equipment | 3-12 |

Palm Beach County, Florida 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, 2023 and 2022, and is recorded under land in the accompanying statements of net position.

Property acquired through the Department’s Residential Buyout Program of Noise Impacted 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.

Leases: The Department is a lessor for various assets including building, hangar and ground properties. The Department, as lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. Short-term leases, variable revenue leases and regulated leases recognize rental income based on the provisions of the lease agreement in the statements of revenues, expenses and changes in net position. Regulated leases include Airline and Fixed Based Operator agreements which are regulated by the Federal Aviation Administration.

Long term leases subject to GASB Statement No. 87 are measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Further, the Department recognizes interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

The following key estimates and judgments are used by the Department to determine the following:

- Discount rate: The Department uses either the explicit rate stated in the lease agreement or the Palm Beach County incremental borrowing rate. The Department re-evaluates the discount rate annually and may use a borrowing rate from any recent revenue bonds issued by the Department.
- Lease receipts: Measurement of the lease receivable for purposes of GASB Statement No. 87 includes fixed payments, and as applicable, variable fixed in substance payments, and residual value guarantee payments that are fixed in substance.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- The Department monitors changes in circumstances that may require a remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the receivable is remeasured, and a corresponding adjustment is made to the deferred inflows of resources for leasing transactions.

For further disclosure on the Departments leasing activity including variable leases, assets held for lease, and regulated leases see Note 4, Leases, as Lessor.

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.

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

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

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 \$3.9 million and \$3.9 million at September 30, 2023 and 2022, respectively, the retention of the operation and maintenance reserve of \$11.6 million and \$8.9 million at September 30, 2023 and 2022, respectively, and the renewal and replacement reserve of \$6.3 million and \$6.9 million at September 30, 2023 and 2022, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of \$2.1 million and \$1.2 million at September 30, 2023 and 2022, 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 consisting of cash and receivables of \$65.3 million and \$53.8 million at September 30, 2023 and 2022, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

Amortization of discounts/premiums on bonds and debt issuance costs: Bond discount or premium 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. Debt issuance costs are expensed when incurred.

Interest: Interest costs are expensed or capitalized in accordance with the provisions of GASB Statement No. 62. The amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets acquisition periods that theoretically could have been avoided if outlays for the assets had not been made. The amount of interest cost incurred was \$2,587,500 and \$2,713,500 for the fiscal years ended September 30, 2023 and 2022, respectively, none of which was recorded as capitalized interest in either fiscal year as the construction activity conducted by the Airports is primarily funded through capital grants and/or passenger facility charges.

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.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Passenger facility charges: The Airports collect a Passenger Facility Charge (PFC) at \$4.50 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 capital contributions in the financial statements. Total collection authority for the Department is \$328,822,089. Cumulative PFC expenditures through September 30, 2023, total \$264,494,770.

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.

Deferred outflows of resources and deferred inflows of resources: In addition to assets, the statement of net position includes a separate section for deferred outflows of resources which represents a consumption of net position applicable to a future period and will not be recognized as an outflow or expense until that time. The Department reports deferred outflows related to leases, pensions, other post-employment benefits (OPEB) and deferred outflows related to the loss on the revenue refunding bonds.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow (revenue or reduction of expense) until that time. The Department reports deferred inflows for leases, pension and OPEB related amounts.

Other post-employment benefits: The County obtains actuarial valuation reports for its post-employment benefit plan (other than pensions) and records the Department's allocation of the total OPEB liability as required under GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. Disclosure information required by GASB Statement No. 75 is found in Note 10, Other Post-Employment Benefits (OPEB).

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.

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.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of the following at September 30, 2023 and 2022:

| | 2023 | 2022 |
|---------------------------------|-----------------------|-----------------------|
| County internal investment pool | \$ 183,749,328 | \$ 168,705,662 |
| Non-pooled money market funds | 63,035,217 | 52,990,898 |
| Cash with fiscal agent | 3,926,108 | 3,876,750 |
| Petty cash | 700 | 1,100 |
| Total | <u>\$ 250,711,353</u> | <u>\$ 225,574,410</u> |

Amounts as presented in the financial statements are as follows:

| | | |
|--|-----------------------|-----------------------|
| Unrestricted pooled cash and cash equivalents | \$ 163,756,302 | \$ 149,547,753 |
| Unrestricted nonpooled cash and cash equivalents | 700 | 1,100 |
| Total unrestricted cash and cash equivalents and investments | <u>163,757,002</u> | <u>149,548,853</u> |
| Restricted pooled cash and cash equivalents | 19,993,026 | 19,157,909 |
| Restricted nonpooled cash and cash equivalents | 63,035,217 | 52,990,898 |
| Restricted cash with fiscal agent | 3,926,108 | 3,876,750 |
| Total restricted cash and cash equivalents and investments | <u>86,954,351</u> | <u>76,025,557</u> |
| Total cash and cash equivalents and investments | <u>\$ 250,711,353</u> | <u>\$ 225,574,410</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 \$3.69 million and \$3.08 million as of September 30, 2023 and 2022, respectively, of which both are approximately 9% and 14%, respectively is 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.

The equity in the County pooled cash system is available to the Department of Airports on a demand basis and the Department of Airports share of the pool at September 30, 2023, was approximately 4.93%. See the County's Annual Comprehensive 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, 2023, the Department of Airports had \$3,926,108 on deposit with a fiscal agent as required by the bond documents and \$63,035,217 of PFC monies held in a non-pooled money market account; the Department had the following underlying investments, measured at amortized cost:

| | Fair Value | Percentage of Total | Maturity | Standard & Poor's Investment Rating Service |
|---|--------------|------------------------|------------------|---|
| Bank of New York Mellon Cash and Short-Term Money Market Account | \$ 3,926,108 | 100% | Less than 1 year | AAAm |
| Synovos Institutional Class/Wells Fargo Bank | 63,035,217 | 100% | Less than 1 year | AAAm |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

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

As of September 30, 2022, the Department of Airports had \$3,876,750 on deposit with a fiscal agent as required by the bond documents and \$52,990,898 of PFC monies held in a non-pooled money market account; the Department had the following underlying investments, measured at amortized cost:

| | Fair Value | Percentage of Total | Maturity | Standard & Poor's Investment Rating Service |
|--|--------------|---------------------|------------------|---|
| Bank of New York Mellon Cash and Short-Term Money Market Account | \$ 3,876,750 | 100% | Less than 1 year | AAAm |
| Synovos Institutional Class/Florida Community Bank | 52,990,898 | 100% | Less than 1 year | 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 (CMOs), money market mutual funds and certain corporate securities.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 3. Capital Assets

Capital asset activity consists of the following at September 30, 2023:

| | Balance at September 30, 2022 | Additions | Retirements | Transfers | Balance at September 30, 2023 |
|---|-------------------------------------|----------------------|------------------|-------------------|-------------------------------------|
| Depreciable capital assets: | | | | | |
| Buildings | \$ 478,740,064 | \$ - | \$ - | \$ 15,211,080 | \$ 493,951,144 |
| Improvements other than buildings | 309,717,318 | - | - | 35,879,867 | 345,597,185 |
| Furniture, fixtures and equipment | 40,932,225 | 3,088,059 | (466,183) | - | 43,554,101 |
| Intangible—easement rights | 13,754,957 | - | - | - | 13,754,957 |
| Total depreciable capital assets | <u>843,144,564</u> | <u>3,088,059</u> | <u>(466,183)</u> | <u>51,090,947</u> | <u>896,857,387</u> |
| Less accumulated depreciation | | | | | |
| Buildings | 319,924,711 | 12,823,608 | - | - | 332,748,319 |
| Improvements other than buildings | 251,100,206 | 11,281,366 | - | - | 262,381,572 |
| Furniture, fixtures and equipment | 37,932,927 | 1,057,023 | (466,183) | - | 38,523,767 |
| Intangible—easement rights | 7,285,784 | 343,874 | - | - | 7,629,658 |
| Total accumulated depreciation | <u>616,243,628</u> | <u>25,505,871</u> | <u>(466,183)</u> | <u>-</u> | <u>641,283,316</u> |
| Depreciable capital assets, net of accumulated depreciation | 226,900,936 | (22,417,812) | - | 51,090,947 | 255,574,071 |
| Nondepreciable capital assets: | | | | | |
| Land | 124,553,033 | - | - | 116,723 | 124,669,756 |
| Construction in progress | 85,809,894 | 37,330,334 | - | (51,207,670) | 71,932,558 |
| Total capital assets | <u>\$ 437,263,863</u> | <u>\$ 14,912,522</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 452,176,385</u> |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 3. Capital Assets (Continued)

Capital asset activity consists of the following at September 30, 2022:

| | Balance at September 30, 2021 | Additions | Retirements | Transfers | Balance at September 30, 2022 |
|---|-------------------------------------|--------------|-------------|-------------|-------------------------------------|
| Depreciable capital assets: | | | | | |
| Buildings | \$ 478,637,837 | \$ - | \$ (3,544) | \$ 105,771 | \$ 478,740,064 |
| Improvements other than buildings | 309,410,089 | - | - | 307,229 | 309,717,318 |
| Furniture, fixtures and equipment | 41,238,773 | 513,709 | (820,257) | - | 40,932,225 |
| Intangible—easement rights | 13,754,957 | - | - | - | 13,754,957 |
| Total depreciable capital assets | 843,041,656 | 513,709 | (823,801) | 413,000 | 843,144,564 |
| Less accumulated depreciation | | | | | |
| Buildings | 308,144,198 | 11,780,513 | - | - | 319,924,711 |
| Improvements other than buildings | 240,964,139 | 10,136,067 | - | - | 251,100,206 |
| Furniture, fixtures and equipment | 37,517,490 | 1,235,694 | (820,257) | - | 37,932,927 |
| Intangible—easement rights | 6,941,910 | 343,874 | - | - | 7,285,784 |
| Total accumulated depreciation | 593,567,737 | 23,496,148 | (820,257) | - | 616,243,628 |
| Depreciable capital assets, net of accumulated depreciation | 249,473,919 | (22,982,439) | (3,544) | 413,000 | 226,900,936 |
| Nondepreciable capital assets: | | | | | |
| Land | 123,805,352 | - | - | 747,681 | 124,553,033 |
| Construction in progress | 62,538,067 | 24,432,508 | - | (1,160,681) | 85,809,894 |
| Total capital assets | \$ 435,817,338 | \$ 1,450,069 | \$ (3,544) | \$ - | \$ 437,263,863 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 4. Leases, as Lessor

The Department 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; however, the majority of these concession leases provide for the automatic abatement of minimum guarantees based on declines in passenger traffic levels. Contingent rental income under such arrangements amounted to \$11,977,469 and \$2,425,376 for the fiscal years ended September 30, 2023 and 2022, respectively. All of the Department's leases are operating leases.

Rental car leases provide for minimum rentals plus a contingency portion specified as a percentage of gross revenues. During fiscal year 2022, minimum guarantees were temporarily abated due to passenger traffic declines associated with the COVID-19 pandemic. Car rental agreements expired September 30, 2022, however all car rental companies have contracted for a new term commencing October 1, 2022 and expiring September 30, 2027. Management does not expect any ongoing impact to car rental agreements from COVID-19.

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

| | Principal | Interest | Total |
|--------------|----------------------|----------------------|-----------------------|
| 2024 | \$ 2,972,462 | \$ 2,680,183 | \$ 5,652,645 |
| 2025 | 1,803,386 | 2,564,060 | 4,367,446 |
| 2026 | 1,850,454 | 2,478,526 | 4,328,980 |
| 2027 | 1,123,031 | 2,408,657 | 3,531,688 |
| 2028 | 964,464 | 2,365,433 | 3,329,897 |
| 2029-33 | 5,614,943 | 11,115,306 | 16,730,249 |
| 2034-38 | 4,794,150 | 9,922,912 | 14,717,062 |
| 2039-43 | 2,935,233 | 8,921,043 | 11,856,276 |
| 2044-48 | 2,610,629 | 8,244,144 | 10,854,773 |
| 2049-53 | 2,432,853 | 7,446,947 | 9,879,800 |
| 2054-58 | 3,693,183 | 6,527,606 | 10,220,789 |
| 2059-63 | 6,102,819 | 5,230,024 | 11,332,843 |
| 2064-68 | 8,388,124 | 3,425,758 | 11,813,882 |
| 2069-73 | 7,917,089 | 1,219,709 | 9,136,798 |
| 2074-78 | 2,185,665 | 36,489 | 2,222,154 |
| Total | \$ 55,388,485 | \$ 74,586,797 | \$ 129,975,282 |

Revenue from regulated leases (as defined by GASB 87) amounted to \$5,383,694 and \$5,840,251 for the fiscal years ended September 30, 2023 and 2022, respectively. Regulated leases include Airline and Fixed Based Operator agreements which are regulated by the Federal Aviation Administration.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 4. Leases, as Lessor (Continued)

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2023 and 2022, is as follows:

| | 2023 | 2022 |
|-------------------------------|-----------------------|-----------------------|
| Buildings | \$ 370,538,350 | \$ 358,322,717 |
| Less accumulated depreciation | 254,807,888 | 245,704,546 |
| | <u>115,730,462</u> | <u>112,618,171</u> |
| Land | 60,592,762 | 60,478,539 |
| Property held for lease, net | <u>\$ 176,323,224</u> | <u>\$ 173,096,710</u> |

Note 5. Revenue Bonds Payable and Long-Term Obligations

Revenue bonds payable by the Department consist of the following as of September 30, 2023 and 2022:

| | 2023 | 2022 |
|---|----------------------|----------------------|
| Series 2016 Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2017 through October 1, 2036, with interest at 4.99% payable semi-annually on October 1 and April 1 | <u>\$ 51,750,000</u> | <u>\$ 54,270,000</u> |
| | 51,750,000 | 54,270,000 |
| Less current portion | <u>2,645,000</u> | <u>2,520,000</u> |
| | 49,105,000 | 51,750,000 |
| Unamortized bond premium | 6,450,797 | 7,336,379 |
| Long-term portion | <u>\$ 55,555,797</u> | <u>\$ 59,086,379</u> |

Series 2016 Revenue Refunding Bonds: The County, on behalf of the Department, issued \$57,070,000 of Airport Revenue Refunding Bonds, Series 2016 during fiscal year 2016 which refunded Series 2006A Airport System Revenue Bonds in its entirety. The refunding resulted in an accounting loss of \$823,000 which is being amortized over the life of Series 2016 Bonds, however, the refunding realized a net present value savings of \$15.6 million. Present value savings are generated due to significantly lower interest rates achieved in the 2016 Series Bonds versus the 2006A Series Bonds. The “all-in true interest costs” as calculated for the 2016 Series Bonds compared to the 2006A Series Bonds, is 2.94% and 5.18%, respectively.

Bond resolution: 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.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 5. Revenue Bonds Payable and Long-Term Obligations (Continued)

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 2023 was 9.6 times the aggregate debt service; principal and interest paid in 2023 and net revenues available for debt service were approximately \$49.6 million and \$5.1 million, respectively.

A summary of changes in long-term obligations for the fiscal year ended September 30, 2023, is as follows:

| | Balance at October 1, 2022 | Additions | Reductions | Balance at September 30, 2023 | Due Within One Year |
|------------------------------|----------------------------------|---------------------|---------------------|-------------------------------------|---------------------------|
| Revenue bonds: | | | | | |
| Series 2016 | \$ 54,270,000 | \$ - | \$ 2,520,000 | \$ 51,750,000 | \$ 2,645,000 |
| Total OPEB liability | 522,251 | - | 2,492 | 519,759 | - |
| Compensated absences payable | 1,293,165 | 162,365 | - | 1,455,530 | 158,425 |
| Net pension liability | 11,324,125 | 1,410,672 | - | 12,734,797 | - |
| | <u>\$ 67,409,541</u> | <u>\$ 1,573,037</u> | <u>\$ 2,522,492</u> | <u>66,460,086</u> | <u>\$ 2,803,425</u> |
| Less current maturities | | | | 2,645,000 | |
| Long-term portion | | | | 63,815,086 | |
| Add unamortized bond premium | | | | 6,450,797 | |
| Total | | | | <u>\$ 70,265,883</u> | |

A summary of changes in long-term obligations for the fiscal year ended September 30, 2022, is as follows:

| | Balance at October 1, 2021 | Additions | Reductions | Balance at September 30, 2022 | Due Within One Year |
|------------------------------|----------------------------------|---------------------|---------------------|-------------------------------------|---------------------------|
| Revenue bonds: | | | | | |
| Series 2016 | \$ 56,670,000 | \$ - | \$ 2,400,000 | \$ 54,270,000 | \$ 2,520,000 |
| Total OPEB liability | 346,337 | 175,914 | - | 522,251 | - |
| Compensated absences payable | 1,267,109 | 26,056 | - | 1,293,165 | 123,569 |
| Net pension liability | 4,107,430 | 7,216,695 | - | 11,324,125 | - |
| | <u>\$ 62,390,876</u> | <u>\$ 7,418,665</u> | <u>\$ 2,400,000</u> | <u>67,409,541</u> | <u>\$ 2,643,569</u> |
| Less current maturities | | | | 2,520,000 | |
| Long-term portion | | | | 64,889,541 | |
| Add unamortized bond premium | | | | 7,336,379 | |
| Total | | | | <u>\$ 72,225,920</u> | |

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

| Fiscal years ending September 30: | Principal | Interest | Total |
|-----------------------------------|----------------------|----------------------|----------------------|
| 2024 | \$ 2,645,000 | \$ 2,521,375 | \$ 5,166,375 |
| 2025 | 2,775,000 | 2,385,875 | 5,160,875 |
| 2026 | 2,915,000 | 2,243,625 | 5,158,625 |
| 2027 | 3,060,000 | 2,094,250 | 5,154,250 |
| 2028 | 3,210,000 | 1,937,500 | 5,147,500 |
| 2029-33 | 18,620,000 | 7,049,250 | 25,669,250 |
| 2034-37 | 18,525,000 | 1,909,875 | 20,434,875 |
| | <u>\$ 51,750,000</u> | <u>\$ 20,141,750</u> | <u>\$ 71,891,750</u> |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans

The County provides retirement benefits to County employees through the following plans:

Plan descriptions: The Florida Retirement System (FRS) Pension Plan and the Retiree Health Insurance Subsidy (HIS) Program are cost-sharing, multiple-employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement. The FRS Pension Plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. These benefits are established by Chapter 121, Florida Statutes, and may only be amended by the Florida legislature.

The HIS Program benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. The HIS Program was established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time.

An annual comprehensive financial report, including financial information and required supplementary information on both plans is publicly available on the web site of the Florida Department of Management Services (<http://www.dms.myflorida.com>).

The Department contributes to the Florida Retirement System Investment Plan (Investment Plan), a defined contribution plan, for its eligible employees who elect to participate in the Investment Plan in lieu of participating in the FRS Pension Plan. As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of FRS defined-benefit plan. County employees participating in the Deferred Retirement Option Program (DROP) are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual members accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.) as the FRS Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. The Investment Plan is administered by the State Board of Administration (SBA) and is reported in the SBA's annual financial statements and in the State of Florida's annual comprehensive financial report. Financial information on this plan is available on the web at <http://www.sbafla.com/>.

Pension plan expenditures: The Department's aggregate pension expense/expenditures for all plans amounted to \$1,734,742 and \$431,616 for the fiscal years ended September 30, 2023 and 2022, respectively. The Department's aggregate net pension liability for all plans were \$12,734,797 and \$11,324,125 with balances of deferred outflows of resources related to pensions of \$2,613,918, and \$2,905,529, and deferred inflows of resources related to pensions of \$504,877 and \$472,418 as of September 30, 2023 and 2022 respectively.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

FLORIDA RETIREMENT SYSTEM (FRS) PENSION PLAN

Benefits provided: The Florida Retirement System was created on December 1, 1970. Members enrolled in the FRS and actively employed on July 1, 2001, or first enrolled between July 1, 2001 and June 30, 2011, will be vested, or eligible to receive future benefits after six years of creditable service. Participants first enrolled on or after July 1, 2011, will be vested, or eligible to receive future benefits after eight years of creditable service. Retirement, disability and death benefits are based on age, average final compensation and years-of-service credit. For members initially enrolled in the FRS before July 1, 2011, average final compensation is the average of the five highest fiscal years of salary earned during covered employment. For members initially enrolled in the FRS on or after July 1, 2011, average final compensation is the average of the eight highest fiscal years of salary earned during covered employment. Members are eligible for normal retirement when they have met the minimum requirements established by their membership class. For members initially enrolled in the FRS before July 1, 2011, Regular Class members are eligible for normal retirement if they are vested and age 62 or if they have 30 years of creditable service regardless of age. For members initially enrolled in the FRS on or after July 1, 2011, Regular Class members are eligible for normal retirement if they are vested and age 65 or if they have 30 years of creditable service regardless of age. Early retirement may be taken any time after vesting. However, there is a 5% reduction of benefits for each year prior to normal retirement age or date. The percentage level of employees' payroll contribution rates is determined using the frozen entry age actuarial cost method.

Beginning July 1, 1998, the FRS implemented Deferred Retirement Option Program (DROP), which is a program available under the FRS Pension Plan. DROP is available when the member first reaches eligibility for normal retirement. The election to participate in DROP may be made any time after the member's normal retirement date. DROP allows a member to effectively retire by ceasing earning additional service credit while deferring termination and continuing up to 96 months. While a member is in DROP, the retirement benefits accumulate in the FRS Trust Fund, as of the DROP effective date, increase by a cost-of-living adjustment each July, and earn tax-deferred monthly interest equivalent to an annual rate of 4.00 percent.

The FRS was amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members, effective July 1, 2002. This integrated defined contribution plan is known as the FRS Investment Plan, which is described later in this note.

Contributions: The following membership classes and contribution rates, which apply to both the FRS Pension Plan and the FRS Investment Plan, in effect at September 30, 2023, were:

| Membership Class | Employee Contribution Rate | Employer Contribution Rate* |
|---|----------------------------|-----------------------------|
| Regular | 3.00% | 13.57% |
| Special Risk | 3.00% | 32.67% |
| State Attorney/Public Defender | 3.00% | 62.72% |
| County, City, Special District Elected Officers | 3.00% | 58.68% |
| Special Risk Administrative Support | 3.00% | 39.82% |
| Senior Management | 3.00% | 34.52% |
| Deferred Retirement Option Program | N/A | 21.13% |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

The following membership classes and contribution rates, which apply to both the FRS Pension Plan and the FRS Investment Plan, in effect at September 30, 2022, were:

| Membership Class | Employee Contribution Rate | Employer Contribution Rate* |
|---|----------------------------|-----------------------------|
| Regular | 3.00% | 11.91% |
| Special Risk | 3.00% | 27.83% |
| State Attorney/Public Defender | 3.00% | 67.79% |
| County, City, Special District Elected Officers | 3.00% | 57.00% |
| Special Risk Administrative Support | 3.00% | 38.65% |
| Senior Management | 3.00% | 31.57% |
| Deferred Retirement Option Program | N/A | 18.60% |

*Employer contribution rates in the above tables include a 1.66% contribution for the Retiree Health Insurance Subsidy Program.

The Department's employer contributions to the FRS Pension Plan totaled approximately \$1,459,196 and employee contributions totaled \$235,629 for the fiscal year ended September 30, 2023. The Department's employer contributions to the FRS Pension Plan totaled approximately \$1,266,545 and employee contributions totaled \$220,864 for the fiscal year ended September 30, 2022. The Department contributed 100% of its statutorily required contributions for the current year and preceding two years.

Net pension liability, deferrals and pension expense: At September 30, 2023 and 2022, the Department reported a liability of \$9,696,817 and \$9,236,600, respectively, for its proportionate share of the FRS Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022. The Department's proportionate share of the net pension liability was based on the Department's 2021-22 fiscal year contributions relative to the 2021-22 fiscal year contributions of all participating members. At June 30, 2022, the Department's proportionate share was .025% of the County portion compared to .024% as its proportionate share measured as of June 30, 2021.

2023

For the fiscal year ended September 30, 2023, the Department recognized pension expense of \$1,966,852 related to the FRS Pension Plan. In addition, the County reported deferred outflows of resources and deferred inflows of resources related to the FRS Pension Plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$ 910,447 | \$ - |
| Change of assumptions | 632,119 | - |
| Net difference between projected and actual earnings on pension plan investments | 404,965 | - |
| Changes in proportion and differences between Department contributions and proportionate share of contributions | 63,706 | 170,659 |
| Department contributions subsequent to the measurement date | 366,164 | - |
| | \$ 2,377,401 | \$ 170,659 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

The Department's contributions to the FRS Pension Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the FRS Pension Plan will be recognized in pension expense as follows:

| | <u>Amount</u> |
|-----------------------------------|---------------------|
| Fiscal years ending September 30: | |
| 2024 | \$ 250,454 |
| 2025 | (158,685) |
| 2026 | 1,561,630 |
| 2027 | 150,971 |
| 2028 | 36,208 |
| | <u>\$ 1,840,578</u> |

2022

For the fiscal year ended September 30, 2022, the Department recognized pension expense of \$431,616 related to the FRS Pension Plan. In addition, the County reported deferred outflows of resources and deferred inflows of resources related to the FRS Pension Plan from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 438,685 | \$ - |
| Change of assumptions | 1,137,527 | - |
| Net difference between projected and actual earnings on pension plan investments | 609,891 | |
| Changes in proportion and differences between Department contributions and proportionate share of contributions | 97,297 | 120,241 |
| Department contributions subsequent to the measurement date | 306,425 | - |
| | <u>\$ 2,589,825</u> | <u>\$ 120,241</u> |

The Department's contributions to the FRS Pension Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the FRS Pension Plan will be recognized in pension expense as follows:

| | <u>Amount</u> |
|-----------------------------------|---------------------|
| Fiscal years ending September 30: | |
| 2023 | \$ 507,593 |
| 2024 | 185,176 |
| 2025 | (180,176) |
| 2026 | 1,553,214 |
| 2027 | 97,352 |
| | <u>\$ 2,163,159</u> |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Actuarial assumptions:

2023

The total pension liability in the July 1, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.40% |
| Salary increases | 3.25%, average, including inflation |
| Investment rate of return | 6.70%, net of pension plan investment expense, including inflation |
| Discount rate | 6.70% |

Mortality rates were based on the PUB2010 base table (varies by member category and sex), projected generationally with scale MP-2018.

2022

The total pension liability in the July 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.40% |
| Salary increases | 3.25%, average, including inflation |
| Investment rate of return | 6.70%, net of pension plan investment expense, including inflation |
| Discount rate | 6.70% |

Mortality rates were based on the PUB2010 base table (varies by member category and sex), projected generationally with scale MP-2018.

The actuarial assumptions used in the July 1, 2022 and 2021, valuations were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2018.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Long-term expected rate of return: The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation (1) | Annual Arithmetic Return | Compound Annual (Geometric) Return | Standard Deviation |
|------------------------|-----------------------|--------------------------|------------------------------------|--------------------|
| Cash | 1.0% | 2.9% | 2.9% | 1.1% |
| Fixed income | 19.8% | 4.5% | 4.4% | 3.4% |
| Global equity | 54.0% | 8.7% | 7.1% | 18.1% |
| Real estate (property) | 10.3% | 7.6% | 6.6% | 14.8% |
| Private equity | 11.1% | 11.9% | 8.8% | 26.3% |
| Strategic investments | 3.8% | 6.3% | 6.1% | 7.7% |
| Total | <u>100.0%</u> | | | |

Assumed inflation—mean 2.4% 1.4%

Note: (1) As outlined in the Plan’s investment policy.

Discount rate: The discount rate used to measure the total pension liability was 6.70% and 6.70% for 2023 and 2022, respectively. The Plan’s fiduciary net position was projected to be available to make all projected benefit payments of current and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The 6.70% and 6.70%, respectively, rate of return and discount rate assumption used in the June 30, 2023 and June 30, 2022, calculations was determined by the Plan’s consulting actuary to be reasonable and appropriate per Actuarial Standards of Practice No. 27 (ASOP 27) for accounting purposes, which differs from the rate used for funding purposes, which is used to establish the contribution rates for the Plan.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Sensitivity to changes in the discount rate: The following presents the Department’s proportionate share of the net pension liability, as well as what the Department’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1% higher than the current rate:

| | 2023 | | |
|---|---------------------------|-------------------------------------|---------------------------|
| | 1% Decrease (5.70%) | Current Discount Rate (6.70%) | 1% Increase (7.70%) |
| Department’s proportionate share of the net pension liability | \$ 16,584,137 | \$ 9,696,817 | \$ 3,951,481 |
| | 2022 | | |
| | 1% Decrease (5.80%) | Current Discount Rate (6.80%) | 1% Increase (7.80%) |
| Department’s proportionate share of the net pension liability | \$ 15,974,064 | \$ 9,236,600 | \$ 3,603,278 |

Pension plan fiduciary net position: Detailed information about the Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Annual Comprehensive Financial Report.

RETIREE HEALTH INSURANCE SUBSIDY (HIS) PROGRAM

Benefits provided: For the fiscal years ended September 30, 2023 and 2022, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive a HIS Plan benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions: The HIS Program is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal years ended September 30, 2023 and 2022, the contribution rate was 1.66% of payroll. The County contributed 100% of its statutorily required contributions for the current and preceding three years. The HIS Program contributions are deposited in a separate trust fund from which payments are authorized. The HIS Program benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The Department’s employer contributions to the HIS Program totaled \$24,632 and \$21,380 for the fiscal years ended September 30, 2023 and 2022, respectively. The Department contributed 100% of its statutorily required contributions for the current and preceding two years.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Net Pension Liability, Deferrals and Pension Expense

2023

At September 30, 2023, the Department reported a liability of \$3,037,980 for its proportionate share of the HIS Program's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022. The Department's proportionate share of the net pension liability was based on the Department's 2022-23 fiscal year contributions relative to the 2022-23 fiscal year contributions of all participating members. At June 30, 2023, the Department's proportionate share of the County's liability was .019%, compared to .023% as its proportionate share measured as of June 30, 2022.

For the fiscal year ended September 30, 2023, the Department recognized pension expense of \$1,150,294 related to the HIS Pension Plan. In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to the HIS Program from the following sources which are the Department's proportionate share of the County's totals:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 44,474 | \$ 7,131 |
| Change of assumptions | 79,868 | 263,251 |
| Net difference between projected and actual earnings on pension plan investments | 1,569 | - |
| Changes in proportion and differences between Department contributions and proportionate share of contributions | 69,359 | 63,836 |
| Department contributions subsequent to the measurement date | 41,247 | - |
| Total | <u>\$ 236,517</u> | <u>\$ 334,218</u> |

The Department's contributions to the HIS Program subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Program will be recognized in pension expense as follows:

| | Amount |
|-----------------------------------|---------------------|
| Fiscal years ending September 30: | |
| 2024 | \$ (22,892) |
| 2025 | (10,476) |
| 2026 | (18,227) |
| 2027 | (48,753) |
| 2028 | (33,615) |
| Thereafter | (4,985) |
| | <u>\$ (138,948)</u> |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

2022

At September 30, 2022, the Department reported a liability of \$2,087,525 for its proportionate share of the HIS Program's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022. The Department's proportionate share of the net pension liability was based on the Department's 2021-22 fiscal year contributions relative to the 2021-22 fiscal year contributions of all participating members. At June 30, 2022, the Department's proportionate share of the County's liability was .020%, compared to .019% as its proportionate share measured as of June 30, 2021.

For the fiscal year ended September 30, 2022, the Department recognized pension expense of \$125,875 related to the HIS Pension Plan. In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to the HIS Program from the following sources which are the Department's proportionate share of the County's totals:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 63,361 | \$ 9,185 |
| Change of assumptions | 119,658 | 322,938 |
| Net difference between projected and actual earnings on pension plan investments | 3,022 | - |
| Changes in proportion and differences between Department contributions and proportionate share of contributions | 97,113 | 20,054 |
| Department contributions subsequent to the measurement date | 32,550 | - |
| Total | <u>\$ 315,704</u> | <u>\$ 352,177</u> |

The Department's contributions to the HIS Program subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Program will be recognized in pension expense as follows:

| | Amount |
|-----------------------------------|--------------------|
| Fiscal years ending September 30: | |
| 2023 | \$ (15,708) |
| 2024 | (7,136) |
| 2025 | 5,587 |
| 2026 | (2,468) |
| 2027 | (32,159) |
| Thereafter | (17,139) |
| | <u>\$ (69,023)</u> |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Actuarial Assumptions

2023

The total pension liability in the July 1, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-------------------------------------|
| Inflation | 2.40% |
| Salary increases | 3.25%, average, including inflation |
| Investment rate of return | 3.65% municipal bond rate |

Mortality rates were based on the PUB2010 base table (varies by member category and sex), projected generationally with scale MP-2018.

Because the HIS Program is funded on a pay-as-you go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for this program were based on certain results of the most recent experience study for the FRS Pension Plan.

2022

The total pension liability in the July 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-------------------------------------|
| Inflation | 2.40% |
| Salary increases | 3.25%, average, including inflation |
| Investment rate of return | 3.54% municipal bond rate |

Mortality rates were based on the PUB2010 base table (varies by member category and sex), projected generationally with scale MP-2018.

Because the HIS Program is funded on a pay-as-you go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for this program were based on certain results of the most recent experience study for the FRS Pension Plan.

Discount rate: The discount rate used to measure the total pension liability was 3.65% and 3.54% for 2023 and 2022, respectively. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent of discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable bond index.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Sensitivity to changes in the discount rate: The following presents the County’s proportionate share of the net pension liability calculated using the discount rate, as well as what the County’s proportionate share of the net pension liability would be if were calculated using a discount rate that is one percentage point lower or one percentage higher than the current rate:

| | 2023 | | |
|---|---------------------------|-------------------------------------|---------------------------|
| | 1% Decrease (2.65%) | Current Discount Rate (3.65%) | 1% Increase (4.65%) |
| Department’s proportionate share of the net pension liability | \$ 3,465,862 | \$ 3,037,980 | \$ 2,683,296 |
| | 2022 | | |
| | 1% Decrease (2.54%) | Current Discount Rate (3.54%) | 1% Increase (4.54%) |
| Department’s proportionate share of the net pension liability | \$ 2,388,300 | \$ 2,087,525 | \$ 1,838,640 |

FLORIDA RETIREMENT SYSTEM INVESTMENT PLAN

Vesting provisions: For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Non-vested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06% of payroll, which is included in the FRS contribution rates, and by forfeited benefits of Investment Plan members. For the fiscal years ended September 30, 2023 and 2022, the information for the amount of forfeitures was unavailable from the SBA, however, management believe that these amounts, if any, would be immaterial to the County. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The Department’s employer contributions to the Investment Plan totaled \$189,587 and \$161,175 for the fiscal years ended September 30, 2023 and 2022, respectively.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 7. Related Party Transactions

The Department 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 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 \$3.9 million and \$3.9 million for the fiscal years ended September 30, 2023 and 2022, respectively. In addition, the Department 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 fiscal years ended September 30, 2023 and 2022, totaled \$268,144 and \$259,259, respectively. At September 30, 2023, there was a receivable from other funds and departments of Palm Beach County of \$122,784. At September 30, 2023 and 2022, \$176,321 and \$188,411, respectively, was payable to other Palm Beach County funds and departments.

The Department also contracts directly with the Palm Beach County Sheriff's Department for security services at PBIA. The cost of these services from the Sheriff's Department was approximately \$9.5 million and \$9.2 million for the fiscal years ended September 30, 2023 and 2022, respectively. The Department also contracts with the Fire-Rescue Department for fire-rescue service at PBIA. The cost of these services was approximately \$7.9 million and \$7.5 million for fiscal years ended September 30, 2023 and 2022, respectively.

Note 8. Major Customers

A significant portion of the Department's earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines operating out of PBIA.

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

Major customers, based on number of enplaned passengers, are as follows:

| | 2023 | 2022 |
|-------------------|---------------|---------------|
| Airline: | | |
| American | 18.8% | 20.2% |
| jetBlue | 27.9% | 26.7% |
| Delta | 25.3% | 25.5% |
| United | 11.0% | 11.8% |
| Southwest | 7.4% | 6.1% |
| Frontier Airlines | 3.5% | 5.0% |
| Others | 4.3% | 3.5% |
| Spirit | 1.0% | 0.8% |
| Air Canada | 0.8% | 0.4% |
| | <u>100.0%</u> | <u>100.0%</u> |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 9. Commitments and Contingencies

Litigation: The Department 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, based upon consultation with legal counsel, that the outcome of these lawsuits will not materially affect the financial position of the Department.

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 for the return of those funds.

Risk management: The Department 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 insurance coverage.

The Department participates in the county-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department by the County self-insurance fund are based on actuarial estimates of the amounts needed to pay prior and current year claims. Premiums paid by the department were \$2,433,721 and \$2,444,809 for the fiscal years ended September 30, 2023 and 2022, respectively. While each of these county-wide self-insurance programs are subject to potential losses in excess of the amounts that have been accrued and funded as of September 30, 2023 and 2022, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

Contract commitments: The Department has numerous uncompleted design and construction contracts for improvements to the airport system. At September 30, 2023 and 2022, the remaining commitment on these uncompleted contracts was \$73,186,806 and \$49,114,974, respectively, which is summarized as follows:

| | Contract Amount | Approved Payments | Retainage Payable | Remaining Contract Commitment |
|------|--------------------|----------------------|----------------------|-------------------------------------|
| 2023 | \$ 179,772,861 | \$ 106,089,942 | \$ 496,113 | \$ 73,186,806 |
| 2022 | \$ 155,142,093 | \$ 105,891,408 | \$ 135,711 | \$ 49,114,974 |

Note 10. Other Post-Employment Benefits

The Department applies the requirements of GASB Statement No. 75, *Financial Reporting for Post-employment Benefit Plans Other Than Pensions*, which requires governments to report a liability on the face of the financial statements for the OPEB that they provide.

This statement requires governments in all types of OPEB plans to present more extensive note disclosures and Required Supplementary Information (RSI) about their OPEB liabilities, including a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government, and a new RSI schedule including the increases and decreases in the total OPEB liability.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 10. Other Post-Employment Benefits (Continued)

Description of OPEB plan: Pursuant to Section 112.0801, Florida Statutes, the County 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. The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and the pattern of sharing costs between the employer and plan members to that point.

As determined by an actuarial valuation, the County records a total OPEB liability in its government-wide financial statements related to the implicit subsidy. The Department participates in the County's plan on an allocation basis, which is approximately 3.87% of the County's liability. See the County's Annual Comprehensive Financial Report for disclosures relating to the actuarial methods and assumptions. The approximate portion of the County's total OPEB liability attributed to the Department is estimated as \$519,759 and \$522,251 at September 30, 2023 and 2022, respectively. The covered payroll is approximately \$11 million and \$10 million for fiscal years ended September 30, 2023 and 2022, respectively.

Measurement of Department's total OPEB liability: The Department's total OPEB liability was determined using the following measurement date and actuarial assumptions as of September 30, 2023:

| | <u>September 30, 2023</u> |
|------------------------------|-----------------------------------|
| Measurement date | September 30, 2023 |
| Actuarial valuation date | September 30, 2022 |
| Salary increase rate | 3.0% per annum |
| Health care cost trend rate: | |
| Post-Medicare | 6.50% – 4.00% |
| Pre-Medicare | 7.00% – 4.00% |
| Discount rate | 4.09% |
| Mortality tables used | Pub-2010 Generational Scale MP-21 |

The changes in the assumptions during the fiscal year ended September 30, 2023, reflect the changes in the discount rate, which was increased from 4.02% to 4.09%. The health care cost trend assumptions are used to project the cost of health care in future years. The following annual trends are based on the current HCA Consulting trend study and are applied on a select and ultimate basis. Select trends are reduced 0.5% each year until reaching the ultimate trend rate.

| <u>Expense Type</u> | <u>Select</u> | <u>Ultimate</u> |
|---------------------------------------|---------------|-----------------|
| Post-Medicare Medical and Rx Benefits | 6.5% | 4.0% |
| Pre-Medicare Medical and Rx Benefits | 7.0% | 4.0% |
| Administrative fees | 4.0% | 4.0% |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 10. Other Post-Employment Benefits (Continued)

Changes in the total OPEB liability: Changes in the total OPEB liability for the fiscal years ended September 30, 2023 and 2022, based on the measurement date, are as follows:

| | 2023 | 2022 |
|---|------------|------------|
| Balance, beginning of year | \$ 522,251 | \$ 346,337 |
| Changes for the year: | | |
| Service cost | 2,810 | 21,935 |
| Interest cost | 2,746 | 8,994 |
| Experience losses | 275 | 275,526 |
| Changes in assumptions and other inputs | (328) | (70,125) |
| Benefit payments | (7,995) | (60,416) |
| Net change | (2,492) | 175,914 |
| Balance, end of year | \$ 519,759 | \$ 522,251 |

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the Department's allocation of the County's total OPEB liability, as well as what the Department's allocation of the County's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rates:

| | Total OPEB Liability | | |
|--------------------------|------------------------|-------------------------|------------------------|
| | 1% Decrease (3.09%) | Current Rate (4.09%) | 1% Increase (5.09%) |
| As of September 30, 2023 | \$ 560,762 | \$ 519,759 | \$ 483,453 |

| | Total OPEB Liability | | |
|--------------------------|------------------------|-------------------------|------------------------|
| | 1% Decrease (3.02%) | Current Rate (4.02%) | 1% Increase (5.02%) |
| As of September 30, 2022 | \$ 563,473 | \$ 522,251 | \$ 485,771 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 10. Other Post-Employment Benefits (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate: The following presents the Department's allocation of the County's total OPEB liability, as well as what the Department's allocation of the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the assumed trend rate:

| | Total OPEB Liability | | |
|--------------------------|---|--|---|
| | 1% Decrease (6.0% Decreasing to 3.0% Over 12 Years) | Current Rate (7.0% Decreasing to 4.0% Over 12 Years) | 1% Increase (8.0% Decreasing to 5.0% Over 12 Years) |
| As of September 30, 2023 | \$ 470,129 | \$ 519,759 | \$ 579,315 |

| | Total OPEB Liability | | |
|--------------------------|---|--|---|
| | 1% Decrease (6.0% Decreasing to 3.0% Over 12 Years) | Current Rate (7.0% Decreasing to 4.0% Over 12 Years) | 1% Increase (8.0% Decreasing to 5.0% Over 12 Years) |
| As of September 30, 2022 | \$ 472,381 | \$ 522,251 | \$ 582,127 |

OPEB expense and deferred outflows and deferred inflows: The Department's allocation of the County's OPEB expense for the fiscal years ended September 30, 2023 and 2022, was \$62,759 and \$12,144, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources from OPEB related activities for the fiscal years ended September 30, 2023 and 2022, are as follows:

| | 2023 | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 236,167 | \$ - |
| Change of assumptions or other inputs | 48,774 | 61,791 |
| Total | \$ 284,941 | \$ 61,791 |

| | Amount |
|---|------------|
| Fiscal years ending September 30, 2023: | |
| 2024 | \$ 19,719 |
| 2025 | 19,719 |
| 2026 | 19,719 |
| 2027 | 19,719 |
| 2028 | 19,719 |
| Thereafter | 124,555 |
| | \$ 223,150 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 10. Other Post-Employment Benefits (Continued)

| | 2022 | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 246,472 | \$ - |
| Change of assumptions or other inputs | 52,491 | 62,730 |
| Total | \$ 298,963 | \$ 62,730 |

| | Amount |
|---|------------|
| Fiscal years ending September 30, 2022: | |
| 2023 | \$ 19,176 |
| 2024 | 19,176 |
| 2025 | 19,176 |
| 2026 | 19,176 |
| 2027 | 19,176 |
| Thereafter | 140,353 |
| | \$ 236,233 |

Palm Beach County, Florida Department of Airports

Schedule of Proportionate Share and Contributions of the Department's Allocation of the Net Pension Liability – Florida Retirement System Pension Plan and Health Insurance Subsidy Pension Plan

**Last Ten Fiscal Years
(Required Supplementary Information-Unaudited)**

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Department's proportion of the FRS net pension liability | 0.024% | 0.025% | 0.024% | 0.024% | 0.024% | 0.240% | 0.026% | 0.025% | 0.024% | 0.023% |
| Department's proportionate share of the FRS net pension liability | \$ 9,696,817 | \$ 9,236,600 | \$ 1,803,525 | \$ 10,406,863 | \$ 8,133,140 | \$ 7,319,983 | \$ 7,577,112 | \$ 6,188,680 | \$ 3,051,611 | \$ 1,399,741 |
| Department's covered payroll | \$ 10,643,697 | \$ 10,055,896 | \$ 9,496,850 | \$ 9,499,538 | \$ 9,196,451 | \$ 8,998,633 | \$ 9,134,709 | \$ 8,494,194 | \$ 9,226,506 | \$ 8,526,607 |
| Department's proportionate share of the FRS net pension liability as a percentage of covered payroll | 91.1% | 91.9% | 19.0% | 109.6% | 88.4% | 81.3% | 82.9% | 72.9% | 33.1% | 16.4% |
| FRS Plan fiduciary net position as a percentage of the total pension liability | 82.38% | 82.89% | 96.40% | 78.85% | 82.61% | 84.26% | 83.89% | 84.88% | 92.00% | 96.09% |

Note: The amounts presented for each fiscal year were determined as of June 30th. The schedule is presented to illustrate the requirements of GASB Statement No. 68.

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required FRS contribution | \$ 1,459,196 | \$ 1,266,545 | \$ 1,090,352 | \$ 960,424 | \$ 882,066 | \$ 828,997 | \$ 785,987 | \$ 740,396 | \$ 687,814 | \$ 623,550 |
| FRS contributions in relation to the contractually required contribution | 1,459,196 | 1,266,545 | 1,090,352 | 960,424 | 882,066 | 828,997 | 785,987 | 740,396 | 687,814 | 623,550 |
| FRS contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Department's covered payroll | \$ 10,944,023 | \$ 10,317,392 | \$ 9,589,130 | \$ 9,584,908 | \$ 9,276,435 | \$ 9,042,911 | \$ 8,969,180 | \$ 8,712,549 | \$ 9,123,362 | \$ 8,356,633 |
| FRS contributions as a percentage of covered payroll | 13.33% | 12.28% | 11.37% | 10.02% | 9.51% | 9.17% | 8.76% | 8.50% | 7.50% | 7.50% |

Note: The amounts presented for each fiscal year were determined as of June 30th. The schedule is presented to illustrate the requirements of GASB Statement No. 68.

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Department's proportion of the HIS net pension liability | 0.019% | 0.023% | 0.019% | 0.018% | 0.018% | 0.018% | 0.018% | 0.020% | 0.020% | 0.020% |
| Department's proportionate share of the HIS net pension liability | \$ 3,037,980 | \$ 2,087,525 | \$ 2,303,905 | \$ 2,196,851 | \$ 2,006,441 | \$ 1,953,093 | \$ 2,041,553 | \$ 2,134,512 | \$ 1,875,865 | \$ 1,654,471 |
| Department's covered payroll | \$ 10,643,697 | \$ 10,055,896 | \$ 9,496,850 | \$ 9,499,538 | \$ 9,196,451 | \$ 8,998,633 | \$ 9,134,709 | \$ 8,494,194 | \$ 9,226,506 | \$ 8,526,607 |
| Department's proportionate share of the HIS net pension liability as a percentage of covered payroll | 28.5% | 20.8% | 24.3% | 23.1% | 21.8% | 21.7% | 22.3% | 25.1% | 20.3% | 19.4% |
| HIS Plan fiduciary net position as a percentage of the total pension liability | 4.12% | 4.81% | 3.56% | 3.00% | 2.63% | 2.15% | 1.64% | 0.97% | 0.50% | 0.99% |

Note: The amounts presented for each fiscal year were determined as of June 30th. The schedule is presented to illustrate the requirements of GASB Statement No. 68.

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required HIS contribution | \$ 24,632 | \$ 21,380 | \$ 18,405 | \$ 16,212 | \$ 14,889 | \$ 13,994 | \$ 13,268 | \$ 12,498 | \$ 8,777 | \$ 7,957 |
| HIS contributions in relation to the contractually required contribution | 24,632 | 21,380 | 18,405 | 16,212 | 14,889 | 13,994 | 13,268 | 12,498 | 8,777 | 7,957 |
| HIS contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Department's covered payroll | \$ 10,944,023 | \$ 10,317,392 | \$ 9,589,130 | \$ 9,584,908 | \$ 9,276,435 | \$ 9,042,911 | \$ 8,969,180 | \$ 8,712,549 | \$ 9,123,362 | \$ 8,356,633 |
| HIS contributions as a percentage of covered payroll | 0.23% | 0.21% | 0.19% | 0.17% | 0.16% | 0.15% | 0.14% | 0.10% | 0.10% | 0.10% |

Note: The amounts presented for each fiscal year were determined as of June 30th. The schedule is presented to illustrate the requirements of GASB Statement No. 68.

Palm Beach County, Florida Department of Airports

Schedules of Changes in the Department's Allocation of the Total OPEB Liability and Related Ratios

**Last 10 Fiscal Years
(Required Supplementary Information—Unaudited)**

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total OPEB liability: | | | | | | |
| Service cost | \$ 2,810 | \$ 21,935 | \$ 32,238 | \$ 15,169 | \$ 8,736 | \$ 10,111 |
| Interest cost | 2,746 | 8,994 | 14,772 | 11,113 | 9,955 | 12,877 |
| Experience losses | 275 | 275,526 | - | 40,678 | - | - |
| Changes in assumptions | (328) | (70,125) | 3,049 | 54,957 | 19,486 | (9,113) |
| Benefit payments | (7,995) | (60,416) | (76,830) | (46,921) | (32,299) | (33,633) |
| Net change in total OPEB liability | (2,492) | 175,914 | (26,771) | 74,996 | 5,878 | (19,758) |
| Total OPEB liability – beginning | 522,251 | 346,337 | 373,108 | 298,112 | 292,234 | 311,992 |
| Total OPEB liability – ending | \$ 519,759 | \$ 522,251 | \$ 346,337 | \$ 373,108 | \$ 298,112 | \$ 292,234 |
| Covered employee payroll | \$ 10,944,023 | \$ 10,317,392 | \$ 9,589,130 | \$ 9,584,908 | \$ 9,276,435 | \$ 9,042,911 |
| Total OPEB liability as a percentage of covered employee payroll. | 4.75% | 5.06% | 3.61% | 3.89% | 3.21% | 3.23% |

**This schedule is to be built prospectively until it contains 10 years of data.*

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate and mortality rates each period. The following are the discount rates used in each period:

| | |
|------|-------|
| 2023 | 4.09% |
| 2022 | 4.02% |
| 2021 | 2.15% |
| 2020 | 2.21% |
| 2019 | 2.66% |
| 2018 | 4.24% |

The following are the mortality rates used in each period:

| | |
|------|------------------------------------|
| 2023 | Pub-2010 Generational, Scale MP-21 |
| 2022 | Pub-2010 Generational, Scale MP-21 |
| 2021 | Pub-2010 Generational, Scale MP-19 |
| 2020 | Pub-2010 Generational, Scale MP-19 |
| 2019 | RP-2014 Generational, Scale MP-18 |
| 2018 | RP-2014 Generational, Scale MP-18 |



RSM US LLP

**Independent Auditor's Report
on Bond Resolution Compliance**

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 position of the Palm Beach County, Florida Department of Airports (the Department) as of September 30, 2023, and the related statements revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the Department 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. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Department's noncompliance with the above-references terms, covenants, provisions or conditions referenced Bond Resolutions, insofar as they relate to accounting matters.

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.

RSM US LLP

West Palm Beach, Florida
March 28, 2024

**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***

Independent Auditor's Report

Honorable Board of County Commissioners
Palm Beach County, Florida

We have audited in accordance with the 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 (*Government Auditing Standards*), the accompanying statements of net position of the Palm Beach County, Florida Department of Airports (the Department) as of September 30, 2023, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and have issued our report thereon dated March 28, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control 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 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 corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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 financial statements. 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

West Palm Beach, Florida
March 28, 2024