

**McGladrey & Pullen**  
Certified Public Accountants

# Palm Beach County Department of Airports

Financial Report  
09.30.2006

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# McGladrey & Pullen

Certified Public Accountants

## Independent Accountant's Report

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

We have audited the accompanying financial statements of Palm Beach County Department of Airports (the "Department") as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Palm Beach County Department of Airports' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Department for the year ended September 30, 2005 were audited by other auditors whose report, dated January 11, 2006, expressed an unqualified opinion on those statements.

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

As discussed in Note 1, the financial statements referred to above present only the Department, an enterprise fund of Palm Beach County, Florida, and are not intended to present fairly the financial position of Palm Beach County, Florida, as of September 30, 2006 and 2005, and the changes in its financial position and where applicable, cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2006, and its change in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2007, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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The following Management's Discussion and Analysis ("MD&A") of the Palm Beach County Department of Airports' (the "Department") activities and financial performance provides the reader with an introduction to the financial statements of the Department for the fiscal year ended September 30, 2006. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements including the notes thereto which are essential to a full understanding of the financial statement data. In addition to the financial statements and accompanying notes, this section presents certain required supplementary information regarding debt service requirements and a schedule of Department payments to other governmental units for goods and services.

#### Airport Activities and Highlights

Fiscal year 2006 results showed a 3.3% decrease in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,404,628.

Fiscal year 2005 results showed a 9.5% increase in total passenger traffic. Enplanements for the fiscal year totaled 3,521,361.

The following table shows a summary of various activities:

	2006	2005	2004
Enplanements	3,404,628	3,521,361	3,216,772
% Increase/(Decrease)	(3.31%)	9.50%	9.50%
Air Carrier Operations	67,045	69,737	68,497
% Increase/(Decrease)	(3.86%)	1.81%	5.90%
Landed Weight	4,289,454	4,547,543	4,226,923
% Increase/(Decrease)	(5.68%)	7.59%	3.77%
Cargo Tons	19,340	19,514	20,175
% Increase/(Decrease)	(0.90%)	(3.27%)	(3.49%)
Parking (Transactions)	1,275,944	1,393,944	1,293,063
% Increase/(Decrease)	(8.47%)	7.80%	4.62%

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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#### Financial Operations Highlights

Financial impacts are highlighted as follows:

##### Changes between 2006 and 2005

- Operating revenues rose by 5.2%, increasing from \$61.1 million to \$64.2 million. Components include an increase in concession revenues of \$3.4 million, which includes parking, car rental and terminal concessions. Increased concessions revenue was due to increased parking rates enacted during fiscal year 2006. Rental revenue increased \$1.2 million due to increased rental rates. Landing fee revenue decreased by approximately \$900,000 due to decreased landing fee rates and decreased landings.
- Operating expenses increased by 4.8%, totaling \$39.7 million in fiscal year 2006. Utilities expenses increased by 26% due to increased electric rates assessed by the provider. Utilities including electric, water, and communications expenses totaled \$3.6 million in fiscal year 2006.
- Operating income before depreciation increased by 5.8%, totaling \$24.5 million in fiscal year 2006.
- The change in net assets for fiscal year 2006 totaled \$8.1 million, a substantial decrease from \$20.8 million in fiscal year 2005. The decrease was due to the loss on the sale of land known as the Hillcrest property of \$32.2 million. The decrease was offset by contributions of buildings and hangers from fixed based operators.

##### Changes between 2005 and 2004

- Operating revenues rose by 15.9%, increasing from \$52.7 million to \$61.1 million. Components include an increase in concession revenues of \$4.1 million, which includes parking, car rental and terminal concessions. Increased concessions revenue was due to increased passenger traffic. Rental revenue increased \$2.7 million due to increased rental rates.
- Operating expenses increased by 5.8%, totaling \$37.9 million in fiscal year 2005. Bad debt expense was recorded in fiscal year 2005 for \$1.1 million to recognize the impact of airline bankruptcy filings, with the largest impact from Delta.
- Operating income before depreciation increased by 37.6%, totaling \$23.2 million in fiscal year 2005 due to the significant increase in operating revenues.

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

- The change in net assets for fiscal year 2005 totaled \$20.8 million, a decrease of approximately \$124,000 from fiscal year 2004. This decline is largely due to the write-off of assets which were repaired or replaced in the aftermath of Hurricanes Frances and Jeanne. Additionally, depreciation expense increased due to the addition of new assets during the fiscal year.

	2006	2005	2004
Operating revenues	\$ 64,225,057	\$ 61,061,150	\$ 52,652,831
Operating expenses	39,729,764	37,908,547	35,827,994
Operating income before depreciation and amortization and other nonoperating income and expenses	24,495,293	23,152,603	16,824,837
Depreciation and amortization	19,399,196	18,860,977	15,720,084
Operating income (loss)	5,096,097	4,291,626	1,104,753
Other nonoperating income and expenses, net including capital contributions and transfers and special items	3,000,534	16,556,182	19,866,588
<b>Change in net assets</b>	<b>\$ 8,096,631</b>	<b>\$ 20,847,808</b>	<b>\$ 20,971,341</b>

### Financial Position Summary

Net assets may serve over time as a useful indicator of the Department's financial position. The Department's assets exceeded liabilities by approximately \$290 million at September 30, 2006 and \$282 million at September 30, 2005. A condensed summary of the Department's net assets at September 30 is shown below:

	2006	2005	2004
<b>Assets:</b>			
Current and other assets	\$ 190,318,972	\$ 117,490,466	\$ 115,092,002
Capital assets	284,266,615	299,949,563	288,640,890
<b>Total assets</b>	<b>474,585,587</b>	<b>417,440,029</b>	<b>403,732,892</b>
<b>Liabilities:</b>			
Current and other liabilities	22,080,018	22,429,666	20,641,185
Long-term debt outstanding	162,382,136	112,983,561	121,912,713
<b>Total liabilities</b>	<b>184,462,154</b>	<b>135,413,227</b>	<b>142,553,898</b>
<b>Net Assets:</b>			
Invested in capital assets, net of debt	183,413,340	180,055,892	159,336,201
Restricted	49,064,442	52,576,285	60,926,844
Unrestricted	57,645,651	49,394,625	40,915,949
<b>Total net assets</b>	<b>\$ 290,123,433</b>	<b>\$ 282,026,802</b>	<b>\$ 261,178,994</b>

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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A significant portion of the Department's net assets each year (63% at September 30, 2006) represents its investment in capital assets (e.g., land, buildings, improvements and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Department uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Department's net assets (17% at September 30, 2006) represents restricted assets that are subject to external restrictions on how they can be used under bond resolution covenants and Passenger Facility Charge regulations. The remaining unrestricted net assets (20% at September 30, 2006) may be used to meet any of the Department's ongoing obligations.

#### 2006 versus 2005

Increase in current and other assets relates to the increase in cash and cash equivalents due to the issuance of the Series 2006 Bonds. Capital assets decreased due to the sale of the Hillcrest land of \$35 million offset by contributions of building and hangers by fixed based operators and increases in capital assets related to the Parking Garage project and Concourse C Expansion project. Increase in long-term debt relates to the Series 2006 Bonds that were issued in fiscal year 2006.

#### 2005 versus 2004

Increase in capital assets relates to security checkpoint expansion and Golfview Canal Relocation. Decrease in long-term debt relates to principal payments on the Series 2001 Revenue Refunding Bonds.

#### Airline-Airport Use and Lease Agreement

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

The Agreement serves as the basis for calculating landing fees and terminal rental rates. All costs associated with operation, maintenance and debt service of the airfield and terminal are recorded in the respective cost centers. Landed weight and rentable square footage serve as the units for landing fees and terminal rents, respectively. Certain airfield revenues are credited towards the Airline's net requirement, i.e., residual rate setting methodology. The terminal cost center expenditure requirements are wholly payable by airline rents, i.e., compensatory rate setting methodology. A revenue sharing component of the methodology credits 50% of the prior year's profitability to the two cost centers.

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

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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

	2006	2005	2004
Landing fee (per 1,000 lbs MGLW)	\$1.032	\$1.115	\$0.999
Average terminal rate (per square foot)	58.78	55.47	42.03
Apron fee rental (per linear foot)	199.82	194.07	184.2
Loading bridge rental (annual rate)	31,256	30,451	31,177
Airline cost per enplanement	6.32	6.54	5.84

### Airline Bankruptcy and Changing Market Share at PBIA

Delta and Northwest Airlines filed for bankruptcy protection status in September of 2005. The Department has prepetition debts from these carriers amounting to approximately \$725,000, with Delta accounting for almost all of this total. The Department considers it unlikely that all of these prepetition debts will be paid. In fiscal 2005, the Department established a large allowance for doubtful accounts (in excess of \$1 million) to account for this uncertainty and the possibility of other business defaults. While the Department believes the position with debtors has improved, there has been no adjustment to the uncollectible account at this time.

Under the terms and conditions of the Airline agreement, bad debt expense is to be calculated in rates and recovered from airline fees in the subsequent rate period. Therefore the writeoff of estimated bad debts did slightly raise the airline rates and charges in fiscal year 2007. Any reversals of this estimate would reduce expenses and lower charges to airlines slightly.

Independence Air ceased operations in December 2005. All prepetition debt from Independence Air was fully secured by letter of credit and was paid by the surety.

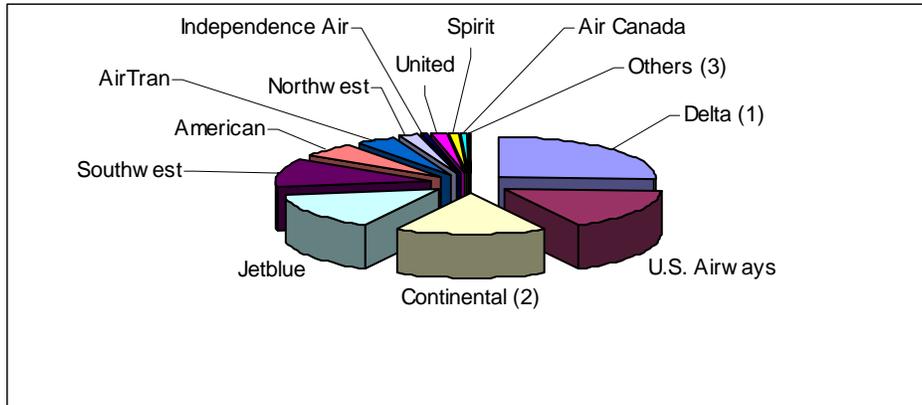
While Delta and U.S. Airways have historically held a market share in excess of 50% at PBIA, current trends show a diversity of market share which strengthens PBIA's financial stability. For fiscal 2006, Delta accounted for 25% (top carrier) and U.S. Airlines accounted for almost 17% (second leading carrier) of total traffic. Continental, JetBlue and Southwest accounted for the next three positions, in that order. This trend towards diversity in market share is expected to continue.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Airline Market Share and Passenger Information

Total passenger traffic is presented below for fiscal year 2006 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2005:



	2006	Change from 2005	% Change from 2005
Delta (1)	1,727,357	(665,850)	(28)%
U.S. Airways	1,130,558	317,537	39%
Continental (2)	1,064,238	15,341	1%
Jetblue	989,543	161,054	19%
Southwest	795,998	55,798	8%
American	394,389	(18,981)	(5)%
AirTran	260,014	27,485	12%
Northwest	135,479	(49,885)	(27)%
Independence Air	33,718	(75,323)	(69)%
United	120,906	29,421	32%
Spirit	66,111	(12,028)	(15)%
Air Canada	32,207	2,617	9%
Others (3)	25,565	(24,011)	(48)%
<b>Total</b>	<b>6,776,083</b>	<b>(236,825)</b>	<b>(3)%</b>

Airline Consolidation Information:

(1) Delta includes Delta, Song, Comair and Chataqua

(2) Continental includes Continental and Gulfstream

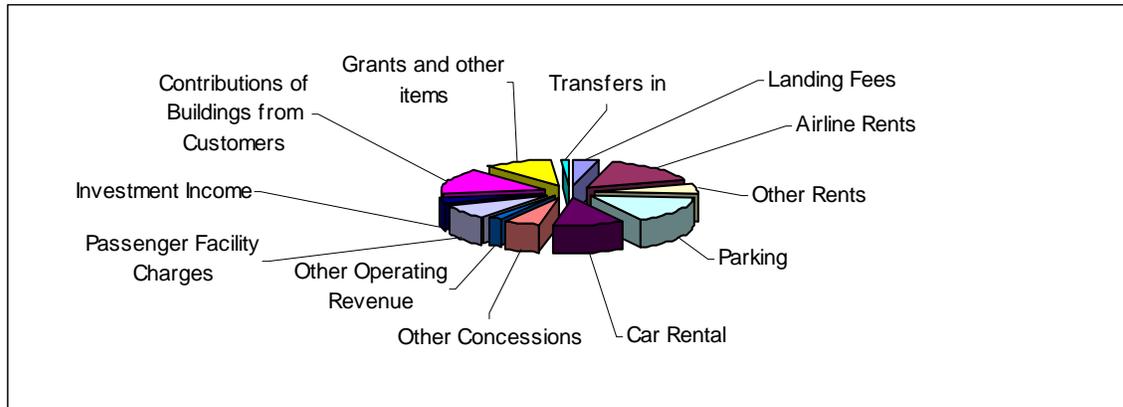
(3) Others include Atlantic Southeast, Bahama Air, Air Midwest, Planet Airways and Canjet

Palm Beach County Department of Airports

Management's Discussion and Analysis

Revenues

The following chart and table summarize revenues for the year ended September 30, 2006:



	2006	Percent of Total	Increase/ (Decrease) from 2005	% Increase/ (Decrease) from 2005
<b>Operating:</b>				
Landing fees	\$ 4,504,305	4%	\$ (900,450)	(17)%
Airline rents	16,533,737	16%	427,917	3%
Other rents	6,683,883	6%	755,517	13%
Parking	16,702,463	16%	1,983,578	13%
Car rental	11,565,771	11%	1,192,312	11%
Other concessions	5,826,741	6%	79,227	1%
Other operating revenue	2,408,157	2%	(374,194)	(13)%
<b>Total operating revenues</b>	<b>64,225,057</b>	<b>61%</b>	<b>3,163,907</b>	<b>5%</b>
<b>Other Sources:</b>				
Passenger facility charges	9,431,417	9%	(202,565)	(2)%
Investment income	3,877,156	4%	1,950,785	101%
Contributions of buildings from customers	15,578,438	15%	15,578,438	-
Grants and other items	11,457,545	11%	(2,799,591)	(20)%
Transfers in	1,055,000	1%	1,055,000	-
<b>Total other sources</b>	<b>41,399,556</b>	<b>39%</b>	<b>15,582,067</b>	<b>60%</b>
<b>Total</b>	<b>\$ 105,624,613</b>	<b>100%</b>	<b>\$ 18,745,974</b>	<b>22%</b>

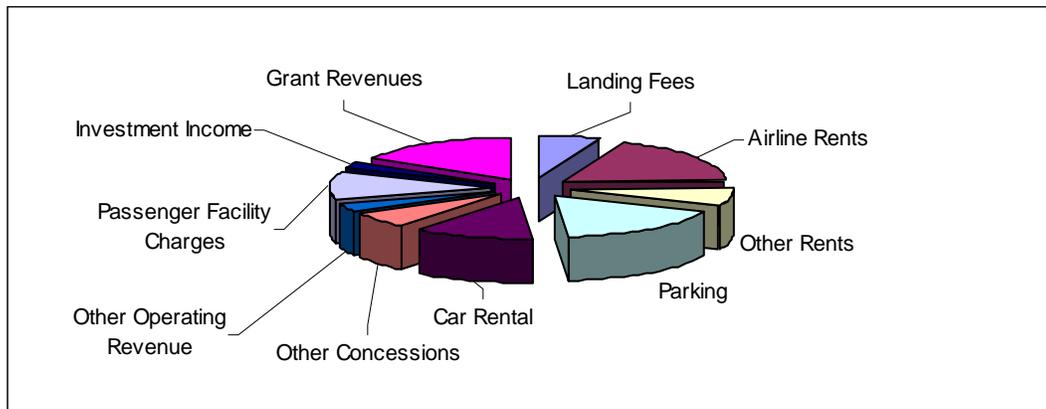
Parking revenue increased approximately \$2 million due to an increase in parking rates in the middle of the fiscal year. Car rental revenues increased due to increased car rental revenues.

Palm Beach County Department of Airports

Management's Discussion and Analysis

Revenues

The following chart and table summarize revenues for the year ended September 30, 2005:



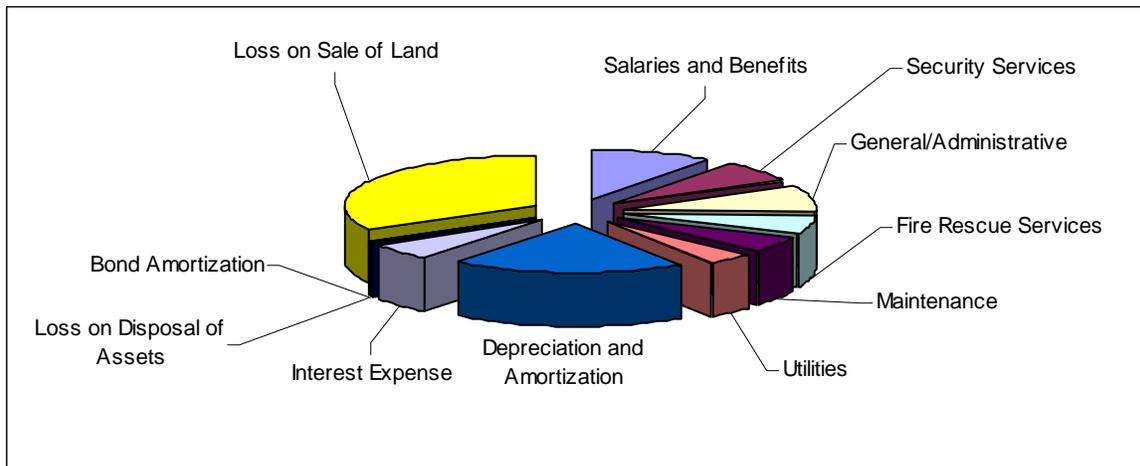
	2005	Percent of Total	Increase/ (Decrease) from 2004	% Increase/ (Decrease) from 2004
<b>Operating:</b>				
Landing fees	\$ 5,404,755	6%	\$ 1,338,711	33%
Airline rents	16,105,820	19%	2,060,752	14%
Other rents	5,928,366	7%	627,796	14%
Parking	14,718,885	17%	2,429,989	20%
Car rental	10,373,459	12%	1,215,003	13%
Other concessions	5,747,514	7%	459,989	9%
Other operating revenue	2,782,351	3%	276,079	11%
<b>Total operating revenues</b>	<b>61,061,150</b>	<b>71%</b>	<b>8,408,319</b>	<b>16%</b>
<b>Other Sources:</b>				
Passenger facility charges	9,633,982	11%	812,201	9%
Investment income	1,926,371	2%	(98,361)	(5)%
Capital contributions and grant revenues	14,257,136	16%	(544,410)	(4)%
Gain on disposal of assets	-	0%	(749,493)	(100)%
<b>Total other sources</b>	<b>25,817,489</b>	<b>29%</b>	<b>(580,063)</b>	<b>(3)%</b>
<b>Total</b>	<b>\$ 86,878,639</b>	<b>100%</b>	<b>\$ 7,828,256</b>	<b>9%</b>

Palm Beach County Department of Airports

Management's Discussion and Analysis

Expenses

The following chart and table summarize expenses for the year ended September 30, 2006:



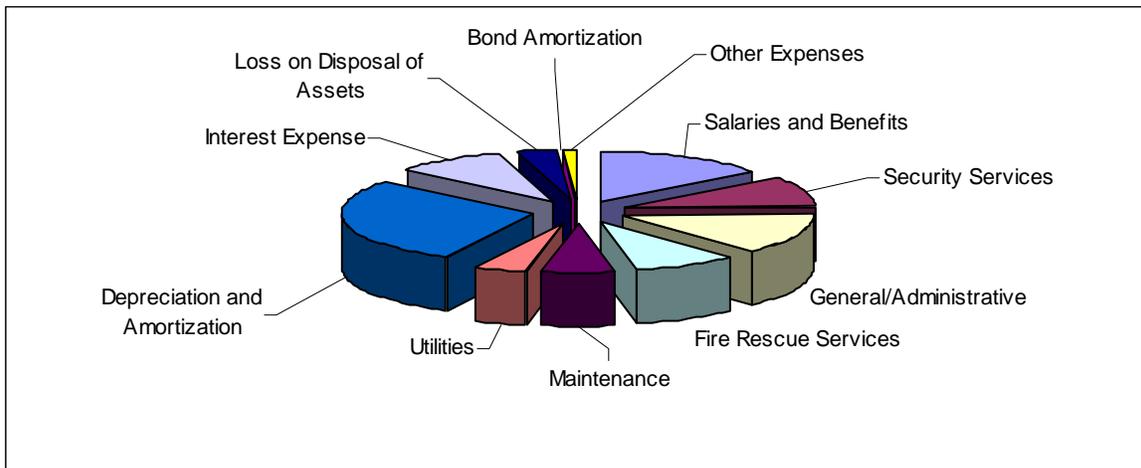
	2006	Percent of Total	Increase/ (Decrease) from 2005	% Increase/ (Decrease) from 2005
<b>Operating:</b>				
Salaries and benefits	\$ 10,017,906	10%	\$ 387,568	4%
Security services	6,823,749	7%	69,677	1%
General/administrative	8,645,811	9%	(100,665)	(1)%
Fire rescue services	5,777,600	6%	(478)	0%
Maintenance	4,836,884	5%	711,035	17%
Utilities	3,627,814	4%	754,080	26%
<b>Total operating</b>	<b>39,729,764</b>	<b>41%</b>	<b>1,821,217</b>	<b>5%</b>
Depreciation and amortization	19,399,196	20%	538,219	3%
<b>Nonoperating:</b>				
Interest expense	5,436,637	6%	(883,750)	(14)%
Loss on disposal of assets	573,020	1%	(1,600,441)	(74)%
Bond amortization	175,364	0%	73,932	73%
Loss on sale of land	32,214,001	33%	32,214,001	0%
Other expenses	-	0%	(666,027)	100%
<b>Total nonoperating</b>	<b>38,399,022</b>	<b>59%</b>	<b>29,137,715</b>	<b>315%</b>
<b>Total expenses</b>	<b>\$ 97,527,982</b>	<b>100%</b>	<b>\$ 31,497,151</b>	<b>48%</b>

Palm Beach County Department of Airports

Management's Discussion and Analysis

Expenses

The following chart and table summarize expenses for the year ended September 30, 2005:



	2005	Percent of Total	Increase/ (Decrease) from 2004	% Increase/ (Decrease) from 2004
Operating:				
Salaries and benefits	\$ 9,630,338	15%	\$ 302,273	3%
Security services	6,754,072	10%	92,928	1%
General/administrative	8,746,476	13%	1,174,220	16%
Fire rescue services	5,778,078	9%	399,231	7%
Maintenance	4,125,849	6%	(5,304)	0%
Utilities	2,873,734	5%	117,205	4%
<b>Total operating</b>	<b>37,908,547</b>	<b>57%</b>	<b>2,080,553</b>	<b>6%</b>
Depreciation and Amortization	18,860,977	29%	3,140,893	20%
Nonoperating:				
Interest expense	6,320,387	10%	(420,500)	(6)%
Loss on disposal of assets	2,173,461	3%	2,173,461	100%
Bond amortization	101,432	0%	(33,298)	(25)%
Other expenses	666,027	1%	666,027	100%
<b>Total nonoperating</b>	<b>9,261,307</b>	<b>14%</b>	<b>2,385,690</b>	<b>35%</b>
<b>Total expenses</b>	<b>\$ 66,030,831</b>	<b>100%</b>	<b>\$ 7,607,136</b>	<b>13%</b>

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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#### 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:

	2006	2005	2004
Cash flow from operating activities	\$ 22,685,310	\$ 24,478,456	\$ 15,477,803
Cash flow from investing activities	18,194,332	2,394,970	2,604,481
Cash flow from noncapital financing	1,223,704	414,317	358,500
Cash flow from capital and related financing activities	39,681,766	(24,566,982)	(13,516,593)
<b>Net increase in cash and cash equivalents</b>	<b>81,785,112</b>	<b>2,720,761</b>	<b>4,924,191</b>
Cash and cash equivalents:			
Beginning of year	86,726,129	84,005,368	79,081,177
End of year	\$ 168,511,241	\$ 86,726,129	\$ 84,005,368

#### Capital Acquisitions and Construction Activities

During 2006, the Department expended \$16.6 million on capital activities. Completed projects during 2006 totaling \$8.2 million were transferred from construction-in-progress to their respective capital accounts. The major completed projects and acquisitions were:

Security Checkpoint Expansion	\$ 2.45 million
Capitalized Hurricane Expenditures	2.09 million
Aviation Easements/Residential Soundproofing	1.33 million

During 2005, the Department expended \$32.8 million on capital activities. Completed projects during 2005 totaling \$50.2 million were transferred from construction-in-progress to their respective capital accounts. The major completed projects and acquisitions were:

Security Checkpoint Expansion	\$ 24.4 million
Capitalized Hurricane Expenditures	6.6 million
Aviation Easements/Residential Soundproofing	5.1 million

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

Palm Beach County Department of Airports

Management's Discussion and Analysis

In general, acquisitions are funded using a variety of financing sources, including Federal Grants, State Grants, Airport revenues, Passenger Facility Charges, debt issuance and Revenue Bonds. The County has issued revenue bonds during fiscal year 2006 to construct additional long-term parking facilities for customers. Bond proceeds for construction were \$69.1 million, and an additional \$16.9 million was issued to refund existing debt.

**Long-Term Debt**

The Department had outstanding long-term debt of \$161.1 million and \$111.9 million as of September 30, 2006 and 2005. Both amounts are net of any current maturities, unamortized premiums or unamortized discounts. The following table reflects the debt activities for Revenue Refunding Bonds that occurred during Fiscal Year 2006:

	Total Outstanding 10/01/2005	Bonds Issued	Principal Paid	Total Outstanding 09/30/2006
Revenue Refunding Bonds:				
Series 2001	\$ 59,910,000	\$ -	\$ 23,870,000	\$ 36,040,000
Series 2002	60,150,000	-	14,740,000	45,410,000
Series 2006A	-	69,080,000	-	69,080,000
Series 2006B	-	16,855,000	-	16,855,000
	<u>\$ 120,060,000</u>	<u>\$ 85,935,000</u>	<u>\$ 38,610,000</u>	<u>167,385,000</u>
Less current maturities				6,515,000
Long-term portion				<u>160,870,000</u>
Add unamortized premium				2,709,596
Less unamortized loss on refunding				(2,484,780)
<b>Total</b>				<u><u>\$ 161,094,816</u></u>

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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The following table reflects the debt activities that occurred during Fiscal Year 2005:

	Total Outstanding 10/01/2004	Principal Paid	Total Outstanding 09/30/2005
Revenue Refunding Bonds:			
Series 2001	\$ 68,320,000	\$ 8,410,000	\$ 59,910,000
Series 2002	60,150,000	-	60,150,000
	<u>\$ 128,470,000</u>	<u>\$ 8,410,000</u>	<u>120,060,000</u>
Less current maturities			8,830,000
Long-term portion			<u>111,230,000</u>
Add unamortized premium			3,708,620
Less unamortized loss on refunding			(2,966,257)
<b>Total</b>			<u><u>\$ 111,972,363</u></u>

See Note 6, Revenue Bonds and Loan Payable in the notes to the financial statements for additional information.

The complete Official Statement of Airport System Revenue Bonds, Series 2006A and Series 2006B is available at the Departments website, [www.pbia.org](http://www.pbia.org).

### Credit Ratings and Bond Insurance

The Airport's ratings were increased during fiscal 2006 due to its relatively strong cash position, improving airline competition, competitive airline fees, strong origination and destination market area, and diversified customer base. On an underlying basis (i.e., uninsured) the Department's credit ratings currently stand at: Standard and Poor's A (increased from A-), Fitch A (no change) and Moody's Investors Service A2 (increased from A3). On an insured basis the rating are as follows: Moody's, S & P, Fitch; Aaa, AAA and AAA, respectively.

### Passenger Facility Charges

The Department, as of September 30, 2006 has collected \$110.2 million in Passenger Facility Charges ("PFC") Revenues, including interest on PFC cash balances, since the inception of the program in April 1, 1994. The Department has capital expenditures from PFC sources totaling \$82.3 million over the same time period. As of September 30, 2006, the Department was authorized to collect \$124.3 million in PFC revenues.

### Significant Transactions, Sale of Hillcrest Land

During Fiscal year 2006, the County sold an area of land to the east of the Airport for \$3,100,000 to Palm Beach Atlantic University. The sale price was based on an independent appraisal of the property with recreational zoning. The sale in 2006 to the University was approved by the Federal Government, the Board of County Commissioners, and the City of West Palm Beach, where the property physically is situated.

## Palm Beach County Department of Airports

### Management's Discussion and Analysis

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The property, formerly known as Hillcrest, had been purchased by the County through the Department's Residential Buyout Program of Noise Impacted areas. The Program was governed by Federal guidelines including purchase price, homeowner relocation cost, comparable housing payments to homeowners, demolition costs of purchased homes, and restoration of land to a reasonable standard. Total costs of the Buyout Program amounted to approximately \$35 million.

The Buyout program occurred largely in the late 1980's to early 1990's and constituted the purchase of over 350 residential homes. Approximately \$26.7 million of the purchase price was funded by Federal and State grants. The remainder was funded by the Department funding. The Department funded their share by using environmental operating landing fees, land sale proceeds, and other airport revenues.

The disparity between the cost and sale price is due to the costs necessary to comply with the Federal Residential Purchase Programs and the recreational zoning restrictions currently attached to the property. Any future rezoning of the property to commercial use which results in an increase in value to the property carries a stipulation that the County will share in such future revenue gains. The 2006 financial statements recognized a loss of sale of land in the amount of \$32.2 million. A portion of the sale price is payable to the State under terms of their grant agreements which assisted in purchasing the property.

### Economic Factors and Next Year's Budgets and Rates

- Palm Beach County has seen significant growth in population and housing.
- The County has announced an agreement with Scripps, a bio-technology research concern, to base a significant portion of their research operations in Palm Beach County. It is expected significant investments by various bio-tech related companies will be made in subsequent years.
- Palm Beach County Tourism has remained strong and continues to show increased occupancy rates in local hotels. Completion of the Convention Center will likely attract more tourism/convention trade to the County.

These factors should contribute to increased passenger traffic and market strength.

The Department of Airport's 2007 operating budget totals \$44 million, not including interfund transfers and reserves, which represents an increase of 6.7% over the prior year budget. Budgetary changes impact airline rates. Fiscal 2007 terminal rates average \$55.92 per square foot; landing fees are \$1.108 per 1,000 lbs. of landed weight. These rates are slight decreases from the prior year due to increased revenues from other sources such as parking fees and other rental revenues. Airline cost per enplanement for fiscal year 2007 is expected to decrease slightly to approximately \$5.99.

### Request for Information

This financial report is designed to provide a general overview of the Department's finances. Questions concerning the information provided in this report can be addressed to Mike Simmons, Deputy Director of Airports, Finance and Administration, Palm Beach County, Department of Airports, Palm Beach International Airport, Building 846, West Palm Beach, Florida 33406 or email at [msimmons@pbia.org](mailto:msimmons@pbia.org). Additional business information and statistics for the Airport can be viewed and downloaded at the Department's website: [www.pbia.org](http://www.pbia.org)

Palm Beach County Department of Airports

Statements of Net Assets  
September 30, 2006 and 2005

Assets	2006	2005
<b>Current Assets:</b>		
Pooled cash and cash equivalents	\$ 45,294,887	\$ 36,051,890
Accounts receivable, less allowance for doubtful accounts of \$1,385,100 and \$1,389,463 in 2006 and 2005, respectively	2,024,225	1,034,135
Government grants receivable	2,404,404	969,056
Due from other governments	140,775	-
Current portion of other receivable	95,792	90,512
Due from other funds	27,468	-
Inventories	976,622	1,012,760
Other current assets	979,595	425,588
<b>Total current assets</b>	<b>51,943,768</b>	<b>39,583,941</b>
<b>Restricted assets:</b>		
Pooled cash and cash equivalents	45,318,403	37,920,844
Nonpooled cash and cash equivalents	77,897,951	12,753,395
Investments	-	14,017,330
Interest receivable	-	209,332
Accounts receivable, less allowance for doubtful accounts of \$5,751 and \$3,836 in 2006 and 2005, respectively	13,213	11,591
<b>Total restricted assets</b>	<b>123,229,567</b>	<b>64,912,492</b>
<b>Capital assets:</b>		
Land	92,217,590	126,136,585
Depreciable capital assets, net of accumulated depreciation	171,674,481	169,139,606
Construction in progress	20,374,544	4,673,372
<b>Total capital assets</b>	<b>284,266,615</b>	<b>299,949,563</b>
<b>Other noncurrent assets:</b>		
Deferred bond issuance costs	2,268,405	1,008,693
Other receivable, net of current portion and discount of \$282,888 and \$345,271 in 2006 and 2005, respectively	920,937	1,016,729
Intangible and other assets, net of accumulated amortization of \$1,784,162 and \$1,440,551 in 2006 and 2005, respectively	11,956,295	10,968,611
<b>Total other noncurrent assets</b>	<b>15,145,637</b>	<b>12,994,033</b>
<b>Total assets</b>	<b>\$ 474,585,587</b>	<b>\$ 417,440,029</b>

See Notes to Financial Statements.

	2006	2005
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts and contracts payable	\$ 2,527,311	\$ 6,285,905
Compensated absences payable	76,273	95,139
Deferred revenue	693,787	1,248,219
Due to other funds	123,023	-
Due to State of Florida	1,945,980	1,624,400
Due to other governments	84,219	-
Current portion of loan payable	-	100,000
Other current liabilities	687,437	739,796
<b>Total current liabilities</b>	<b>6,138,030</b>	<b>10,093,459</b>
Liabilities payable from restricted assets:		
Accounts and contracts payable	5,343,160	97,970
Security deposits	297,183	248,043
Interest payable on revenue bonds	3,786,645	3,160,194
Loan payable	250,000	-
Current maturities of revenue bonds	6,515,000	8,830,000
<b>Total liabilities payable from restricted assets</b>	<b>16,191,988</b>	<b>12,336,207</b>
Long-term liabilities:		
Compensated absences payable	1,037,320	1,011,198
Revenue bonds payable (less current maturities)	161,094,816	111,972,363
<b>Total long-term liabilities</b>	<b>162,132,136</b>	<b>112,983,561</b>
<b>Total liabilities</b>	<b>184,462,154</b>	<b>135,413,227</b>
Net assets:		
Invested in capital assets, net of related debt	183,413,340	180,055,892
Restricted:		
Passenger facility charges	31,722,385	25,004,479
Debt service	5,678,634	15,300,697
Renewal and replacement	3,966,615	3,186,312
Operation and maintenance	2,441,293	6,152,100
Capital outlay	5,255,515	2,932,697
	49,064,442	52,576,285
Unrestricted	57,645,651	49,394,625
<b>Total net assets</b>	<b>\$ 290,123,433</b>	<b>\$ 282,026,802</b>

Palm Beach County Department of Airports

Statements of Revenues, Expenditures and Changes in Net Assets  
Years Ended September 30, 2006 and 2005

	2006	2005
<b>Operating revenues:</b>		
Rentals	\$ 23,217,620	\$ 22,034,186
Concessions	34,241,386	30,839,858
Landing fees	4,504,305	5,404,755
Other	2,261,746	2,782,351
<b>Total operating revenues</b>	<b>64,225,057</b>	<b>61,061,150</b>
<b>Operating expenses:</b>		
Employee compensation and benefits	10,017,906	9,630,338
General and administrative	8,645,811	8,746,476
Maintenance	4,836,884	4,125,849
Contracted security services	6,823,749	6,754,072
Contracted fire-rescue services	5,777,600	5,778,078
Utilities	3,627,814	2,873,734
<b>Total operating expenses before depreciation and amortization</b>	<b>39,729,764</b>	<b>37,908,547</b>
Operating income before depreciation and amortization	24,495,293	23,152,603
Depreciation and amortization	19,399,196	18,860,977
<b>Operating income</b>	<b>5,096,097</b>	<b>4,291,626</b>
<b>Nonoperating revenues (expenses):</b>		
Investment income	3,877,156	1,926,371
Passenger facility charges	9,431,417	9,633,982
Grant revenue	1,968,370	414,317
Interest expense	(5,436,637)	(6,320,387)
Loss on disposal of capital assets	(43,653)	(2,173,461)
Impairment loss	(529,367)	(253,973)
Amortization of revenue bond costs	(175,364)	(101,432)
Other revenues (expenses)	2,050	(412,054)
<b>Total nonoperating revenues (expenses), net</b>	<b>9,093,972</b>	<b>2,713,363</b>
<b>Income before contributions, transfers and special items</b>	<b>14,190,069</b>	<b>7,004,989</b>
Contributions of buildings and hangars	15,578,438	-
Airport improvement grants	9,487,125	13,842,819
Transfers in	1,055,000	-
<b>Income before special items</b>	<b>40,310,632</b>	<b>20,847,808</b>
<b>Special Item:</b>		
Loss on sale of land	(32,214,001)	-
<b>Change in net assets</b>	<b>8,096,631</b>	<b>20,847,808</b>
Net assets at beginning of year	282,026,802	261,178,994
<b>Net assets at end of year</b>	<b>\$ 290,123,433</b>	<b>\$ 282,026,802</b>

See Notes to Financial Statements.

Palm Beach County Department of Airports

Statements of Cash Flows

Years Ended September 30, 2006 and 2005

	2006	2005
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 62,734,338	\$ 63,135,258
Cash payments to vendors for goods and services	(13,764,494)	(16,185,275)
Cash payments to employees for services	(9,967,793)	(9,614,402)
Cash payments to other funds	(16,318,784)	(12,445,071)
Other receipts (disbursements)	2,043	(412,054)
<b>Net cash provided by operating activities</b>	<b>22,685,310</b>	<b>24,478,456</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers from other County funds	1,027,532	-
Operating grants received	196,172	414,317
<b>Net cash provided by noncapital financing activities</b>	<b>1,223,704</b>	<b>414,317</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(23,502,441)	(33,105,210)
Proceeds from revenue bonds issued	86,383,914	-
Proceeds from sale of capital assets	3,262,340	115,418
Insurance proceeds from impairment loss	-	702,939
Proceeds from loan	250,000	-
Repayment on loan payable	(100,000)	(1,102,450)
Principal repayment on revenue bonds	(38,610,000)	(8,410,000)
Passenger facility charges received	9,431,417	9,633,982
Receipt of capital grants and reimbursements	9,778,259	14,128,976
Bond issue costs paid	(2,401,537)	-
Interest and fiscal charges paid	(4,810,186)	(6,530,637)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>39,681,766</b>	<b>(24,566,982)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	-	(10,040,449)
Proceeds from sale and maturity of investments	14,017,330	10,040,949
Receipt of repayments on other receivables	90,513	85,524
Interest received on investments	4,086,489	2,308,946
<b>Net cash provided by investing activities</b>	<b>18,194,332</b>	<b>2,394,970</b>
<b>Net change of cash and cash equivalents</b>	<b>81,785,112</b>	<b>2,720,761</b>
Cash and cash equivalents at beginning of year (including \$50,674,239 and \$59,444,612 in restricted accounts)	86,726,129	84,005,368
Cash and cash equivalents at end of year (including \$123,216,354 and \$50,674,239 in restricted accounts)	<b>\$ 168,511,241</b>	<b>\$ 86,726,129</b>

(Continued)

Palm Beach County Department of Airports

Statements of Cash Flows (Continued)  
Years Ended September 30, 2006 and 2005

	2006	2005
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 5,096,097	\$ 4,291,626
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	19,399,196	18,860,977
Provision for doubtful accounts	(6,284)	1,090,299
Other revenue/ (expense)	2,043	(412,054)
Changes in assets and liabilities:		
Accounts receivable	(985,427)	(54,777)
Inventories	36,139	(107,326)
Other current assets	(554,006)	(1,880,297)
Accounts and contracts payable	124,183	1,548,407
Compensated absences payable	7,256	9,651
Deferred revenues	(554,432)	1,022,999
Due to other funds	111,974	-
Other current liabilities	(40,569)	93,364
Security deposits	49,140	15,587
<b>Total adjustments</b>	<b>17,589,213</b>	<b>20,186,830</b>
<b>Net cash provided by operating activities</b>	<b>\$ 22,685,310</b>	<b>\$ 24,478,456</b>

Supplemental Disclosures of Noncash Capital and Related

Financing Activities:

Amortization of intangible assets	\$ 310,232	\$ 310,232
Amortization of deferred issue costs	424,152	209,410
Amortization of premium on bonds	1,447,937	731,186
Contributions of capital assets, including customers	15,578,438	-
Disposition of fully depreciated capital assets	1,935,933	-
Change in fair value of investments	-	(383,583)
Loss on sale of land	(32,214,001)	-

See Notes to Financial Statements.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

##### A. Reporting Entity

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

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

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

##### B. Basis of Presentation

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

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

##### C. Basis of Accounting

The accounts of the Department of Airports are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. 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 the FAA, based on deplaned passengers.

Intergovernmental revenues from federal or state grants are recognized on the accrual basis subject to the legal and contractual requirements of the grant program.

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

The Department of Airports follows all applicable pronouncements of the Governmental Accounting Standards Board ("GASB"), as well as certain pronouncements of the Financial Accounting Standards Board ("FASB") and its predecessors, issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Department of Airports has elected not to apply FASB pronouncements issued after November 30, 1989. Certain prior year amounts have been reclassified to conform to the current year presentation.

#### D. Cash and Cash Equivalents

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

#### E. Investments

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

#### F. Accounts Receivable

Accounts receivable are composed primarily of monthly billings to airlines and concessionaires operating at Palm Beach International Airport for various rentals and other fees under the Department of Airports operating leases. No collateral is required for accounts receivable. An allowance for doubtful accounts is provided for receivables where there is a question as to ultimate collectability. Receivables are written off when management has determined that the amount will not be collected. Collection on accounts previously written off is included in other revenues when received.

#### G. Inventories

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

#### H. Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of donation. Maintenance and repairs are charged to expense as incurred. Capital assets are defined as those assets with an initial, individual cost of over \$1,000. Major renewals and betterments which are significant and add to the productive capacity or extend the useful life of capital assets are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets, which are summarized as follows:

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as "noise-impacted" surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration ("FAA") Noise Abatement Grant Program for reimbursement. The FAA funds approximately 80% of these costs with the remainder financed by the State of Florida and the Department of Airports. The FAA retains a continuing interest in the properties equal to its original funding percentage and restricts the use of such properties to purposes which are compatible with noise levels associated with the operation of Airports. The total cost associated with acquiring these parcels of land are \$46,862,004 and \$80,781,000 at September 30, 2006 and 2005, respectively, and is recorded under the caption "land" in the accompanying statements of net assets.

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

#### I. Intangible Assets

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

#### J. Security Deposits

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

#### K. Deferred Revenue

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

#### L. Restricted Assets

Certain assets are restricted in accordance with the provisions of the Bond Resolution ("Resolution") and in accordance with FAA restrictions. Assets restricted under the Resolution are designated primarily for payment of debt service of approximately \$75,125,000 and \$27,189,000 at September 30, 2006 and 2005, respectively, and the retention of the operation and maintenance reserve of \$10,944,000 and \$9,609,000 at September 30, 2006 and 2005, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately \$4,769,000 and \$2,387,000 at September 30, 2006 and 2005, respectively, and results from the sale of excess land previously contributed by the FAA and not required for aviation purposes. These assets are restricted until appropriated for FAA approved projects. In addition, the Department of Airports also has restricted cash and cash equivalents of approximately \$31,722,000 and \$25,012,000 at September 30, 2006 and 2005, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### M. Amortization

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

##### N. Interest

Interest costs are expensed or capitalized in accordance with the provisions of Statements of Financial Accounting Standards No. 34, Capitalization of Interest Cost and No. 62, Capitalization and Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants. The amount of interest cost incurred was \$5,436,637 for the fiscal year ended September 30, 2006, which \$1,272,434 was charged to capitalized interest.

##### O. Compensated Absences

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

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

##### P. Passenger Facility Charges

In 1994, the FAA began a program allowing Airports to collect a \$3 Passenger Facility Charge ("PFC") per enplaned passenger. The monies collected under this program must be used for capital-related improvements to the Airport facilities and all expenditures of these funds must be preapproved by the FAA. The Department of Airports was authorized to collect up to approximately \$124.3 million through July 2008. PFC revenue is treated as nonoperating revenue in the financial statements.

The Department has initiated an application with the FAA to begin collection of PFC fees at an increased rate of \$4.50 per enplanement. The Department anticipates FAA approval by April 2007. Collections at the increased rate would be effective whenever collections authorized under the preceding approval have been satisfied, currently estimated at July 2008.

##### Q. Capital Contributions

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### R. Use of Estimates

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

##### S. Impairments

On October 1, 2005, the Department adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governments to report the effects of capital asset impairment in the financial statements when the impairment occurs by evaluating major events affecting capital assets including physical damage, changes in legal or environmental factors, technological changes or obsolescence, changes in manner or duration and construction stoppage to determine whether the capital assets are impaired. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment.

#### Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of the following at September 30, 2006 and 2005:

	2006	2005
County Internal Investment Pool	\$ 90,612,185	\$ 73,971,634
DBA – Money Market Account	77,897,956	12,753,395
Petty cash	1,100	1,100
Total	<u>\$ 168,511,241</u>	<u>\$ 86,726,129</u>
Unrestricted cash and cash equivalents	\$ 45,294,887	\$ 36,051,890
Restricted cash and cash equivalents	123,216,354	50,674,239
Total	<u>\$ 168,511,241</u>	<u>\$ 86,726,129</u>
Investments	<u>\$ -</u>	<u>14,017,330</u>

#### Cash and Cash Equivalents

The Department of Airports participates in the County's pooled cash system to maximize earnings and facilitate cash management. The County's pooled cash fund is a highly liquid investment pool of approximately \$1.8 billion and \$1.6 billion as of September 30, 2006 and 2005, respectively, of which approximately 89% and 91%, respectively, are invested in U.S. Government and Agency obligations. The County's investment policy for this pool requires that all securities be insured or registered in the name of the County and held by a third party custodial institution, with capital and surplus stock of at least \$500 million and a separate custody account at the Federal Reserve Bank that is restricted for the safekeeping of County-owned securities. Almost all remaining amounts at September 30, 2006 and 2005 were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer ("State Treasurer") and the Florida Local Government Investment Trust, both of which are considered 2a-7 like pools. The equity in the County pooled cash system is available to the Department of Airports on a demand basis. See the County's Comprehensive Annual Financial Report for disclosures relating to its interest rate risk, credit risk, custodial credit risk and concentration of credit risk.

Notes to Financial Statements

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

The Department of Airports also maintains separate DBA Money Market accounts and deposits that are not part of the County's investment pool. These deposits are with financial institutions that were entirely covered by a combination of Federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions which comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer. Qualified public depositories are required to pledge collateral to the State Treasurer with a fair value equal to at least 50% of the average daily balance of all government deposits in excess of any Federal deposit insurance. In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of Federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured.

**Investments**

The Department of Airports follows the County's investment policy. County ordinance and the Resolution authorize the Department of Airports to invest in obligations of the U.S. Government, U.S. Government Agencies and Instrumentalities, repurchase agreements, interest-bearing time deposits or savings accounts, the Local Government Surplus Funds Trust Fund, the Florida Local Government Investment Trust, Collateralized Mortgage Obligations (CMO's), and certain corporate securities. The Department of Airports invested only in permissible securities during the year.

The Department of Airports carries its investments at fair value. At September 30, 2005, investments held outside of the County's investment pool consisted of U.S. Government Agency obligations with a carrying value of \$14,017,330. The Department of Airports anticipates holding these investments to maturity. In accordance with the County's investment policy, these were registered in the name of the County and were held by a third party custodial institution in a separate custody account. Investment income for the years ended September 30, 2006 and 2005 includes net realized and unrealized losses of approximately \$200,056 and \$384,000, respectively.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 3. Capital Assets

	Balance at October 1, 2005	Additions	Retirements	Transfers	Balance at September 30, 2006
<b>Depreciable capital assets</b>					
Buildings	\$ 208,476,363	\$ 15,598,717	\$ 1,358,218	\$ 4,854,829	\$ 227,571,691
Improvements other than buildings	166,568,266	75,548	184,512	911,854	167,371,156
Furniture, fixtures and equipment	31,414,252	772,521	1,806,359	-	30,380,414
<b>Total depreciable capital assets</b>	<b>406,458,881</b>	<b>16,446,786</b>	<b>3,349,089</b>	<b>5,766,683</b>	<b>425,323,261</b>
<b>Less accumulated depreciation</b>					
Buildings	97,677,875	10,713,140	827,009	-	107,564,006
Improvements other than buildings	112,825,385	6,865,959	160,865	-	119,530,479
Furniture, fixtures and equipment	26,816,015	1,476,587	1,738,307	-	26,554,295
<b>Total accumulated depreciation</b>	<b>237,319,275</b>	<b>19,055,686</b>	<b>2,726,181</b>	<b>-</b>	<b>253,648,780</b>
<b>Depreciable capital assets, net of accumulated depreciation</b>	<b>\$ 169,139,606</b>	<b>\$ (2,608,900)</b>	<b>\$ 622,908</b>	<b>\$ 5,766,683</b>	<b>\$ 171,674,481</b>
<b>Nondepreciable capital assets</b>					
Land	\$ 126,136,586	\$ -	\$ 35,004,001	\$ 1,085,005	\$ 92,217,590
Construction in progress	4,673,372	22,552,860	-	(6,851,688)	20,374,544
<b>Total capital assets</b>	<b>\$ 299,949,564</b>	<b>\$ 19,943,960</b>	<b>\$ 35,626,909</b>	<b>\$ -</b>	<b>\$ 284,266,615</b>

Palm Beach County Department of Airports

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	Balance at October 1, 2004	Additions	Retirements	Transfers	Balance at September 30, 2005
<b>Depreciable capital assets</b>					
Buildings	\$ 188,822,797	\$ 1,795,771	\$ 10,113,628	\$ 27,971,423	\$ 208,476,363
Improvements other than buildings	147,948,237	-	317,143	18,937,172	166,568,266
Furniture, fixtures and equipment	31,047,497	1,147,387	780,632	-	31,414,252
<b>Total depreciable capital assets</b>	<b>367,818,531</b>	<b>2,943,158</b>	<b>11,211,403</b>	<b>46,908,595</b>	<b>406,458,881</b>
<b>Less accumulated depreciation</b>					
Buildings	94,549,533	10,018,040	6,889,698	-	97,677,875
Improvements other than buildings	106,054,751	7,078,266	307,632	-	112,825,385
Furniture, fixtures and equipment	26,129,857	1,454,439	768,281	-	26,816,015
<b>Total accumulated depreciation</b>	<b>226,734,141</b>	<b>18,550,745</b>	<b>7,965,611</b>	<b>-</b>	<b>237,319,275</b>
<b>Depreciable capital assets, net of accumulated depreciation</b>	<b>\$ 141,084,390</b>	<b>\$ (15,607,587)</b>	<b>\$ 3,245,792</b>	<b>\$ 46,908,595</b>	<b>\$ 169,139,606</b>
<b>Nondepreciable capital assets</b>					
Land	\$ 124,771,003	\$ 1,365,582	\$ -	\$ -	\$ 126,136,585
Construction in progress	22,785,497	28,796,470	-	(46,908,595)	4,673,372
<b>Total capital assets</b>	<b>\$ 288,640,890</b>	<b>\$ 14,554,465</b>	<b>\$ 3,245,792</b>	<b>\$ -</b>	<b>\$ 299,949,563</b>

Note 4. Leases

The Department of Airports leases a major portion of its property to airlines and concessionaires. Certain of the concessionaire leases provide for minimum rentals plus a contingency portion specified as a percentage of the tenants' gross revenues. Contingent rental income under such arrangements amounted to approximately \$5,210,000 and \$5,173,000 for the years ended September 30, 2006 and 2005, respectively. All Department of Airports' leases are operating leases.

Palm Beach County Department of Airports

Notes to Financial Statements

**Note 4. Leases (Continued)**

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

Year Ending September 30,	
2007	\$ 32,648,378
2008	31,466,102
2009	20,503,873
2010	20,284,198
2011	20,233,475
Thereafter	42,213,833
	<u>\$ 167,349,859</u>

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2006 and 2005, is as follows:

	2006	2005
Buildings	\$ 193,391,527	\$ 171,486,932
Less accumulated depreciation	89,194,263	79,062,170
	<u>104,197,264</u>	<u>92,424,762</u>
Land	5,742,182	1,867,182
Property held for lease, net	<u>\$ 109,939,446</u>	<u>\$ 94,291,944</u>

**Note 5. Due to State of Florida**

The Department of Airports entered into joint participation agreements with the Florida Department of Transportation ("FDOT") and received State financial assistance for the acquisition of land for the North County Airport. Pursuant to the terms of the Joint Participation Agreements and Florida Statutes, the FDOT advanced up to 75% of the cost of the land acquisition and is to be reimbursed for all amounts in excess of 50% of eligible project costs which are not funded by the Federal Government. Reimbursements are due to the FDOT when Federal funds are received or within ten years after the date of the land acquisition, whichever is earlier. The amount to be reimbursed to the FDOT related to the advanced funds is \$1,624,400 as of September 30, 2006 and 2005, because the ten-year period has expired. Management of the Department of Airports is currently in negotiations with the FDOT regarding the ultimate disposition of this advance.

As part of the sale of properties known as "Hillcrest", the Department is obligated to repay the State a portion of the sales proceeds. The State assisted the Department in the original acquisition of the Hillcrest properties through grant payments to the Department. The Department sold this land to another party in 2006, and pursuant to grant assurances, is obligated to pay a portion back to the State. See Note 12 for additional details regarding this transaction.

Palm Beach County Department of Airports

Notes to Financial Statements

**Note 6. Revenue Bonds and Loan Payable**

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Series 2006A Revenue Bonds due in annual installments of \$2,920,000 to \$6,055,000 beginning October 1, 2021 through October 1, 2036, with interest from 4.7% to 5.0% payable semi-annually on October 1 and April 1	\$ 69,080,000	\$ -
Series 2006B Revenue Refunding Bonds due in annual installments of \$2,425,000 to \$3,225,000 beginning October 1, 2015 through October 1, 2020, with interest at 5.0% payable semi-annually on October 1 and April 1	16,855,000	-
Series 2002 Revenue Refunding Bonds due in annual installments of \$13,645,000 to \$16,500,000 beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semi-annually on October 1 and April 1	45,410,000	60,150,000
Series 2001 Revenue Refunding Bonds due in annual installments of \$7,635,000 to \$11,215,000 through October 1, 2010, with interest from 4.0% to 5.5% payable semi-annually on October 1 and April 1	36,040,000	59,910,000
	<u>167,385,000</u>	<u>120,060,000</u>
Less current portion	6,515,000	8,830,000
	<u>160,870,000</u>	<u>111,230,000</u>
Unamortized bond premium	2,709,596	3,708,620
Unamortized loss on refunding	(2,484,780)	(2,966,257)
Long-term portion	<u>\$ 161,094,816</u>	<u>\$ 111,972,363</u>

**Series 2006 A and B**

Series 2006A, \$69,080,000 Airport System Revenue Bonds, dated May 17, 2006; proceeds are to be used for the construction of an additional 3,200 space long-term parking garage. Construction is necessary to meet additional passenger traffic demands for parking facilities at Palm Beach International Airport. The new garage structure is expected to be completed December 2007.

Notes to Financial Statements

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**Note 6. Revenue Bonds and Loan Payable (Continued)**

Pursuant to the Bond Resolution, the County covenants that it will fix, charge and collect rates, fees, rentals and charges for the use of the Airport System, and shall revise such rates, fees, rentals and charges as often as may be necessary or appropriate to produce Revenues in each Fiscal Year at least equal to the sum of Operation and Maintenance Expenses, including reserves therefore provided for in the Annual Budget, plus the greater of (A) an amount equal to the sum of 1.25 times the Aggregate Debt Service for such Fiscal Year, or (B) the sum of: (i) the amount to be paid during such Fiscal Year into the Debt Service Account, plus (ii) the amount, if any, to be paid during the Fiscal Year into the Debt Service Account (including amounts payable to the issuer of any Debt Service Reserve Account Facility and excluding amounts required to be paid into such account out of the proceeds of Bonds), plus (iii) the amount, if any, to be paid into the Renewal and Replacement Fund as provided in the Annual Budget, plus (iv) all other charges and liens whatsoever payable out of Revenues during such Fiscal Year, plus (v) to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

**Series 2002**

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

A portion (\$14,740,000) of this Series was defeased during fiscal year 2006 by placing monies with an escrow depository.

**Series 2001**

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

A portion (\$15,040,000) of this Series was defeased during fiscal year 2006 by placing monies with an escrow depository.

**Current Year Refunding**

On July 3, 2006, the Department issued \$16,855,000 Revenue Refunding Bonds, Series 2006B with an effective interest rate of 5.01% to advance refund \$15,040,000 of outstanding Airport Revenue Bonds Series 2001 and \$14,740,000 of outstanding Airport Revenue Bonds Series 2002. The net proceeds of \$16,559,700 (after payment of approximately \$295,300 in issuance costs) and \$13,937,973 from the debt service funds of the series 2001 and 2002 were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### **Note 6. Revenue Bonds and Loan Payable (Continued)**

This advance partial refunding of the series 2001 and 2002 bonds resulted in an accounting loss of approximately \$717,673 that is being deferred and amortized over the life of the new bonds. The Department reduced its aggregate debt service payments by approximately \$8.6 million over the next 14 years and incurred an economic loss (difference between the present values of the old and new debt service payments and other contributions) of approximately \$1.7 million.

#### **Loan Payable**

In conjunction with the purchase of a parcel of property during the fiscal year ended September 30, 2003, the Airport was obligated to pay \$14.5 million for the property. The loan is noninterest bearing. The current portion of the loan at September 30, 2005 was \$100,000 which represents the final amount of retainage withheld on the project. This loan was paid off during the fiscal year ended September 30, 2006.

On March 15, 2006, the Department of Airports entered into an \$8,000,000 line of credit agreement with a financial institution to finance costs incurred for the acquisitions, constructions, installation and equipping of certain facilities and improvements relating to the Airport System. Principal borrowed on the line of credit is due at maturity on June 30, 2011. Interest on the principal balance accrues at a rate equivalent to 77% of the one-month LIBOR rate plus 46 basis points (approximately 4.62% at September 30, 2006) and is paid quarterly. Borrowings on the line of credit are payable from and secured by a pledge of the net revenues of the airport system, subordinate to the lien and pledge of net revenues for repayment of the Airport bonds. The balance of the Note Payable is \$250,000 at September 30, 2006.

Palm Beach County Department of Airports

Notes to Financial Statements

**Note 6. Revenue Bonds and Loan Payable (Continued)**

A summary of changes in long-term liabilities for the years ended September 30, 2006 and 2005 is as follows:

	Balance at October 1, 2005	Additions	Retirements	Reductions	Balance at September 30, 2006	Due Within One Year
Revenue funding bonds:						
Series 2006A	\$ -	\$ 69,080,000	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	-	16,855,000	-	-	16,855,000	-
Series 2002	60,150,000	-	14,740,000	-	45,410,000	-
Series 2001	59,910,000	-	15,040,000	8,830,000	36,040,000	6,515,000
Loan payable	100,000	-	-	100,000	-	-
Note payable	-	250,000	-	-	250,000	-
Compensated absences payable	1,106,337	116,598	-	109,342	1,113,593	76,273
	<u>\$ 121,266,337</u>	<u>\$ 86,301,598</u>	<u>\$ 29,780,000</u>	<u>\$ 9,039,342</u>	<u>168,748,593</u>	<u>\$ 6,591,273</u>
Less current maturities					6,591,273	
Long-term portion					162,157,320	
Add unamortized bond premium					2,709,596	
Less unamortized loss on refunding					2,484,780	
Total					<u>\$ 162,382,136</u>	

	Balance at October 1, 2004	Additions	Reductions	Balance at September 30, 2005	Due Within One Year
Revenue funding bonds:					
Series 2002	\$ 60,150,000	\$ -	\$ -	\$ 60,150,000	\$ -
Series 2001	68,320,000	-	8,410,000	59,910,000	-
Loan payable	1,202,450	-	1,102,450	100,000	-
Compensated absences payable	1,096,686	17,500	7,849	1,106,337	95,139
	<u>\$ 130,769,136</u>	<u>\$ 17,500</u>	<u>\$ 9,520,299</u>	<u>121,266,337</u>	<u>\$ 95,139</u>
Less current maturities				9,025,139	
Long-term portion				112,241,198	
Add unamortized bond premium				3,708,620	
Less unamortized loss on refunding				2,966,257	
Total				<u>\$ 112,983,561</u>	

Palm Beach County Department of Airports

Notes to Financial Statements

**Note 6. Revenue Bonds and Loan Payable (Continued)**

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

Year Ending September 30,	Principal	Interest	Total
2007	\$ 6,515,000	\$ 8,006,974	\$ 14,521,974
2008	6,790,000	8,253,931	15,043,931
2009	7,225,000	7,922,706	15,147,706
2010	7,535,000	7,570,994	15,105,994
2011	7,975,000	7,194,313	15,169,313
2012-2016	47,835,000	27,430,418	75,265,418
2017-2021	14,430,000	19,320,062	33,750,062
2022-2026	16,135,000	15,154,275	31,289,275
2027-2031	20,600,000	10,583,650	31,183,650
2032-2036	26,290,000	4,759,078	31,049,078
2037	6,055,000	142,293	6,197,293
	<u>\$ 167,385,000</u>	<u>\$ 116,338,694</u>	<u>\$ 283,723,694</u>

**Note 7. Other Receivable**

In May 2001, the County entered into termination agreements with Merrill Lynch Capital Services ("MLCS") to terminate its interest rate swap agreements. On July 3, 2002 the Department of Airports paid \$2,477,800 to terminate the agreement related to the Series 2002 bonds. In conjunction with the termination of the swap agreement related to the Series 2002 bonds, MLCS agreed to pay the Department of Airports \$76,488 on each October 1 and April 1 beginning October 1, 2002 and ending October 1, 2014. These future payments were discounted at 5.75% and the net amount of \$1,312,000 (payments to be received totaling \$1,912,200 less discount of \$600,200) was recorded as a receivable and a reduction of the loss on swap termination. At September 30, 2006 and 2005 the net receivable was \$1,016,729 (less current portion of \$95,792 and net of discount of \$282,887) and \$1,107,241 (less current portion of \$90,512 and net of discount of \$345,271), respectively.

**Note 8. Defined Benefit Pension Plan**

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

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 8. Defined Benefit Pension Plan (Continued)

Funding policy: Plan members are not required to contribute to the System. The Department of Airports is required to contribute at an actuarially determined rate, which is presently 9.85% of annual covered payroll. The contribution requirement for plan members and participating governments is established by State Statute. The Department of Airports' contributions to the System for the years ended September 30, 2006, 2005 and 2004 were approximately \$651,287, \$550,000 and \$517,000, respectively, and were equal to the required contributions for each year.

#### Note 9. Related Party Transactions

The Department of Airports reimburses the General Fund of Palm Beach County for an allocated portion of certain support department costs which include such services as legal, administrative, fiscal, engineering, purchasing, personnel, internal audit and communication costs. The Department of Airports is also charged for the cost of services provided by the Motor Pool, Casualty Self-Insurance, Workers' Compensation and Data Processing Internal Service Funds of the County. The total cost for the above services was approximately \$4,081,000 and \$3,505,000 for the years ended September 30, 2006 and 2005, respectively. In addition, the Department of Airports pays solid waste disposal fees to the Solid Waste Authority of Palm Beach County, a dependent special district and component unit of Palm Beach County, Florida. Fees paid to the Solid Waste Authority for the years ended September 30, 2006 and 2005 totaled approximately \$217,000 and \$165,000, respectively. At September 30, 2006 and 2005, there was \$27,468 and \$0 receivable from other funds and departments of Palm Beach County and \$111,975 and \$352,062, respectively, was payable to other County funds and departments. These amounts are included in accounts and contracts payable in the statement of net assets.

The Department of Airports also contracts directly with the Palm Beach County Sheriff's Department for security services at Palm Beach International Airport. The cost of these services was approximately \$6.82 million and \$6.75 million for the years ended September 30, 2006 and 2005, respectively. The Department of Airports also contracts with the Fire-Rescue Department for fire-rescue service at Palm Beach International Airport. The cost of these services was approximately \$5,788,000 for the years ended September 30, 2006 and 2005.

#### Note 10. Major Customers

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

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 10. Major Customers (Continued)

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

Airline	Percent of Activity Based Upon Enplaned Passengers	
	Years Ended September 30,	
	2006	2005
Delta Airlines, Inc.	24.25%	32.80%
Jet Blue Airways Corporation	16.65%	11.56%
US Air, Inc.	15.18%	15.02%
Continental Airlines, Inc.	13.43%	10.85%
Southwest Airlines Company	11.75%	10.62%
American Airlines, Inc.	5.77%	5.77%
Others	12.97%	13.38%
	<u>100.00%</u>	<u>100.00%</u>

#### Note 11. Commitments and Contingencies

##### Litigation

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

##### Grants

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

The Department incurred expenses related to Hurricane Wilma and will be reimbursed 90% of the eligible costs associated with this disaster.

##### Risk Management

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

The Department of Airports participates in the County-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department of Airports are based on actuarial estimates of the amounts needed to pay prior and current year claims. Premiums paid to the County were \$1,525,628 and \$1,387,757 for the years ended September 30, 2006 and 2005, respectively. While each of these programs is subject to potential losses in excess of the amounts that have been accrued and funded as of September 30, 2006 and 2005, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

Palm Beach County Department of Airports

Notes to Financial Statements

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**Note 11. Commitments and Contingencies (Continued)**

**Contract Commitments**

The Department of Airports has several uncompleted design and construction contracts for improvements to the airport system. At September 30, 2006, the remaining commitment on these uncompleted contracts was \$90,206,792, which is summarized as follows:

Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
\$ 144,507,653	\$ 53,848,653	\$ 452,208	\$ 90,206,792

**Note 12. Special Item-Sale of Land**

During Fiscal year 2006, the County sold an area of land to the east of the Airport for \$3,100,000 to Palm Beach Atlantic University. The sale price was based on an independent appraisal of the property with recreational zoning. The sale in 2006 to the University was approved by the Federal Government, the Board of County Commissioners, and the City of West Palm Beach where the property is physically situated.

The property, formerly known as Hillcrest, had been purchased by the County through the Department's Residential Buyout Program of Noise Impacted areas. The Program was governed by Federal guidelines including purchase price, homeowner relocation cost, comparable housing payments to homeowners, demolition costs of purchased homes, and restoration of land to a reasonable standard. Total costs of the Buyout Program amounted to approximately \$35 million.

The Buyout program occurred largely in the late 1980's to early 1990's and constituted the purchase of over 350 residential homes. Approximately \$26.7 million of the purchase price was funded by Federal and State grants. The remainder was funded by the Department funding. The Department funded their share by using environmental operating landing fees, land sale proceeds, and other airport revenues.

The loss on the sale of land of \$32.2 million was treated as a special item in the statement of revenues, expenditures and changes in net assets at September 30, 2006. Special items are transactions or events within the control of management that are significant and either unusual in nature or infrequent in occurrence.

# McGladrey & Pullen

Certified Public Accountants

## Independent Accountant's Report on Bond Resolution Compliance

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

We have audited, in accordance with auditing standards generally accepted in the United States, the statement of net assets of the Palm Beach County Department of Airports as of September 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 26, 2007.

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

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

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

# McGladrey & Pullen

Certified Public Accountants

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

The Honorable Board of County Commissioners  
Palm Beach County, Florida

We have audited the accompanying statement of net assets of the Palm Beach County Department of Airports (the "Department") as of September 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### ***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 provision of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007