

Palm Beach County, Florida Department of Airports

Financial Report
September 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Palm Beach County, Florida Department of Airports (the "Department") as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statements referred to above present only the Department and do not purport to, and do not, present fairly the financial position of Palm Beach County, Florida, as of September 30, 2013 and 2012 and the changes in its financial position and where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 evidence sufficient 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 reports dated March 25, 2014, and March 8, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

McGladrey LLP

West Palm Beach, Florida
March 25, 2014

Palm Beach County 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 year ended September 30, 2013. 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 2013 results showed a .5% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 2,830,273.

Fiscal year 2012 results showed a 3.8% decline in enplanements (departing passengers). Enplanements for the fiscal year totaled 2,816,618.

The following table shows a summary of various activities:

	2013	2012	2011
Enplanements	2,830,273	2,816,618	2,928,199
% Change	0.5%	(3.8)%	0.2%
Air Carrier Operations	51,098	52,448	54,695
% Change	(2.6)%	(4.1)%	(2.5)%
Landed Weight	3,375,723	3,461,159	3,610,430
% Change	(2.5)%	(4.1)%	0.1%
Cargo Tons	21,039	21,004	19,203
% Change	0.2%	9.4%	5.3%
Parking Transactions	771,279	781,295	837,124
% Change	(1.3)%	(6.7)%	(4.7)%

Palm Beach County Department of Airports

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

Financial Operations Highlights

Financial impacts are highlighted as follows:

Changes between 2013 and 2012

- Operating revenues remained relatively unchanged at \$65.4 million. Concession revenues car rental companies and other concession contracts increased by 4% resulting in a revenue increase of \$628,000. Landing fee revenue decreased by \$736,000 (12%) as a result of a decrease in landing fee rates and landed weight.
- Compared to the prior year, operating expenses decreased by \$759,000 (2%) to \$39.8 million in fiscal year 2013. Cost savings were realized in the areas of Fire Rescue Services, contract services, and indirect costs assessed by Palm Beach County government operations.
- As a result of the factors above, 2013 operating income before depreciation increased \$654,000 over the prior year.
- Investment Income resulted in a loss of \$323,000, a net change in investment gains by approximately \$2 million compared to the prior year. The Department of Airports is a participant in the County's investment pool managed by the Clerk of Courts. While interest income continues to be earned on the portfolio, pursuant to GASB 31, investments are required to be recorded at fair value based upon quoted market prices. Although there was a major restructuring of the portfolio to minimize interest rate/price risk, any fixed income portfolio will experience changes in fair value when rates rise or other market conditions change to affect fixed income markets.

Changes between 2012 and 2011

- Operating revenues decreased by \$900,000 (1%) to \$65.5 million. The largest contributor being airline rents which decreased by \$1.9 million (11%) over the prior year, due to decreased lease rates charged to airlines and decreases in leasehold area to airlines. Landing fee revenue decreased by \$128,000 (2%) as a result of decreased landed weight which declined 4.1% from the prior year. Car rental concession revenues and non-airline rentals both increased during fiscal year 2012 by a cumulative \$1.3 million, partially offsetting declines in airline rents and landing fees.
- Compared to the prior year, operating expenses decreased by \$1.4 million (3%) to \$40.5 million in fiscal year 2012. For historical perspective, the Department's 2012 operating expenses were 11% less than in fiscal year 2009 which translates into annual savings of \$5 million. This reduction in costs has led to decreased rates to Airlines pursuant to the terms of our lease agreement with the signatory airlines. Cost savings have been achieved over a broad range of areas including salary freezes, reduced pension costs, decreased staffing, more favorable contracts, increased energy efficiency, and cost containment over a broad range of categories.
- As a result of the factors above, 2012 operating income before depreciation increased \$500,000.

Palm Beach County Department of Airports

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

The change in net position for fiscal year 2013 totaled \$8.6 million; the net position change in fiscal year 2012 totaled \$13 million.

	2013	2012	2011
Operating revenues	\$ 65,373,251	\$ 65,477,896	\$ 66,409,509
Operating expenses	39,773,302	40,532,190	41,978,289
Operating income before depreciation and amortization and other nonoperating income and expenses	25,599,949	24,945,706	24,431,220
Depreciation and amortization	28,586,881	26,933,358	26,082,101
Operating loss	(2,986,932)	(1,987,652)	(1,650,881)
Other nonoperating income and expenses, net including capital contributions and transfers and special items	11,600,395	15,331,848	17,440,654
Change in net position	\$ 8,613,463	\$ 13,344,196	\$ 15,789,773

Palm Beach County Department of Airports

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

Financial Position Summary

Net position may serve over time as a useful indicator of the Department's financial position. The Department's assets exceeded liabilities by approximately \$392 million at September 30, 2013, and \$384 million at September 30, 2012. A condensed summary of the Department's net position at September 30 is shown below:

	2013	2012	2011
Assets:			
Current and other assets	\$ 143,155,245	\$ 137,833,625	\$ 132,346,031
Capital assets	368,067,625	380,441,693	381,111,527
Total assets	511,222,870	518,275,318	513,457,558
Liabilities:			
Current and other liabilities	18,410,782	22,380,666	19,790,725
Long-term debt outstanding	99,913,596	111,609,623	122,726,000
Total liabilities	118,324,378	133,990,289	142,516,725
Net Position:			
Net investment in capital assets	257,614,568	258,943,490	252,687,682
Restricted	71,752,135	72,769,828	70,883,727
Unrestricted	63,531,789	52,571,711	47,369,424
Total net position	\$ 392,898,492	\$ 384,285,029	\$ 370,940,833

A significant portion of the Department's net position each year (66% at September 30, 2013) 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 position (18% at September 30, 2013) 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 (16% at September 30, 2013) may be used to meet any of the Department's ongoing obligations.

Financial Position, 2013 versus 2012

Total assets decreased by \$7 million in 2013 due to the asset retirements and depreciation on assets. Unrestricted cash and cash equivalents increased by \$13 million. Liabilities decreased by \$15.6 million due to repayment of long-term revenue bond principal of \$10.995 million and decreases in accounts and contracts payable of \$3.98 million. As a result of the foregoing, total net position increased by \$8.6 million over the prior year.

Palm Beach County Department of Airports

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

Financial Position, 2012 versus 2011

Total assets increased by \$4.8 million in 2012 due to the significant increases in both unrestricted and restricted cash and investments. Cash and cash equivalents increased by \$5.8 million; mainly due to an increase in the Passenger Facility Charge Fund reserves. Liabilities decreased by \$8.5 million due to repayment of long-term revenue bond principal of \$10.2 million offset by an increase in accounts and contracts payable of \$2.7 million. As a result of the foregoing, total net position increased by \$13.3 million over the prior year.

Airline-Airport Use and Lease Agreement

The Department and Signatory air carriers operate under a negotiated Airline-Airport Use and Lease agreement (the "Agreement") which establishes how the Signatory airlines ("Airlines") will be assessed rates and charges for the use of Palm Beach International Airport ("PBI"). Non-signatory airlines pay an additional 10% for landing fees and terminal rents. 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, i.e., residual rate setting methodology. The terminal cost center expenditure requirements are wholly payable by airline rents, i.e., compensatory rate setting methodology. A revenue sharing component of the methodology credits 50% of the prior year's profitability to the two cost centers. The Department also has the ability under the Agreement to adjust airline rates and charges at any time throughout the year if the Department determines a rate adjustment is required resulting in an increase of 10% or more. This insures the Department is in a position to meet all financial requirements of the Bond resolution regarding debt service coverage requirements.

The Department is currently operating under a two year agreement covering fiscal years 2013 and 2014 under the same terms and conditions. The Department is working towards a five year agreement to be effective October 1, 2014. Management does not expect any material issues in reaching agreement with the airlines and expects all existing carriers to execute the upcoming five year agreement.

The following table shows comparative rates and airline cost per enplanement metrics on a historical basis versus the budgeted expectations for fiscal year 2014. Note that the historical rates are net of any year end settlement calculations with signatory carriers pursuant to the Airline Agreement.

	2014			
	Budget	2013	2012	2011
Landing fee (per 1,000 lbs MGLW)	\$ 1.327	\$ 1.370	\$ 1.405	\$ 1.398
Average annual terminal rate (per square foot)	65.69	64.66	62.97	65.19
Apron fee rental (annual, per linear foot)	347.27	307.18	294.10	266.45
Loading bridge annual rental per unit	61,694	65,034	68,949	68,144
Gross Revenue from Passenger Airlines (in thousands)	20,576	20,935	21,843	23,857
Enplanements (in thousands)	2,859	2,830	2,817	2,928
Airline cost per enplanement	7.20	7.40	7.76	8.15
Landed Weight excluding cargo carriers (in millions)	3,288	3,184	3,274	3,426
Signatory Airline terminal leasehold area (sq ft)	196,918	199,642	203,961	225,216

Palm Beach County Department of Airports

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

Factors impacting the Airline sector and PBI traffic

Airline travel has been negatively impacted by a poor national economy during the period of 2008 to 2011. In response, airlines have consolidated, flight operations have diminished, and increased air fares and/or baggage prices have combined to produce softer demand. PBI also is in a highly competitive South Florida region competing against larger airports in Miami and Fort Lauderdale for inbound tourists and local outbound customers.

Economic factors have moderated over the past two years, especially in the real estate industry. Continued moderation of employment will serve the travel industry well in the coming months. Management does not anticipate any significant changes in traffic during fiscal year 2014 and is projecting a level to slightly up year for passenger traffic.

At PBI, fiscal year 2013 passenger traffic was up .7% compared to a flat fiscal year 2012. Airline seat capacity serving PBI for fiscal year 2013 decreased by 4.3% over the prior fiscal year.

In recent years multiple airlines have merged: Delta/Northwest, Southwest/AirTran, and United/Continental. The merger of American/US Airways is expected to occur during 2014. Management does not expect any significantly negative passenger traffic impacts due to this anticipated merger.

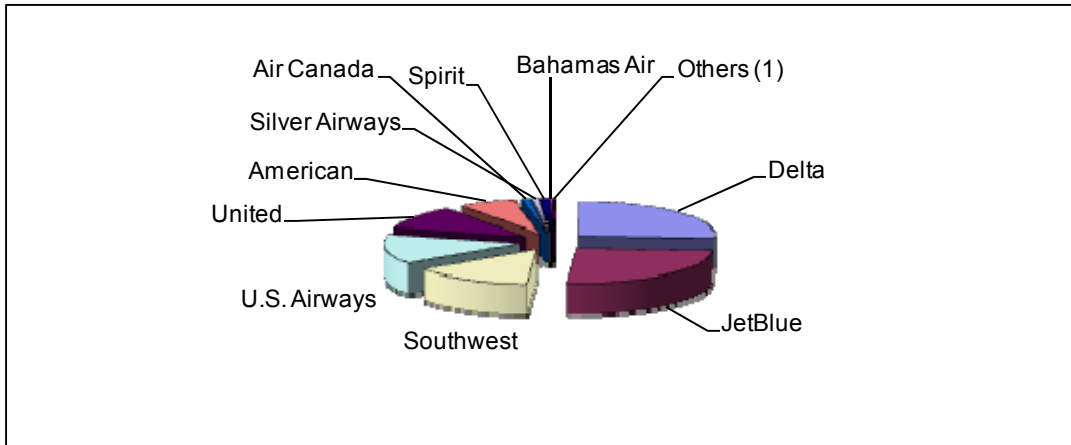
Major announcements of new Palm Beach International Airport flights include American Airlines service to Los Angeles; Silver Airways inaugurated service to Orlando, Eleuthera, and Freeport; and Bahamasair started service to Nassau. All service began in November of 2013.

Palm Beach County Department of Airports

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

Airline Market Share and Passenger Information

Total passenger traffic is presented below for fiscal year 2013 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2012:



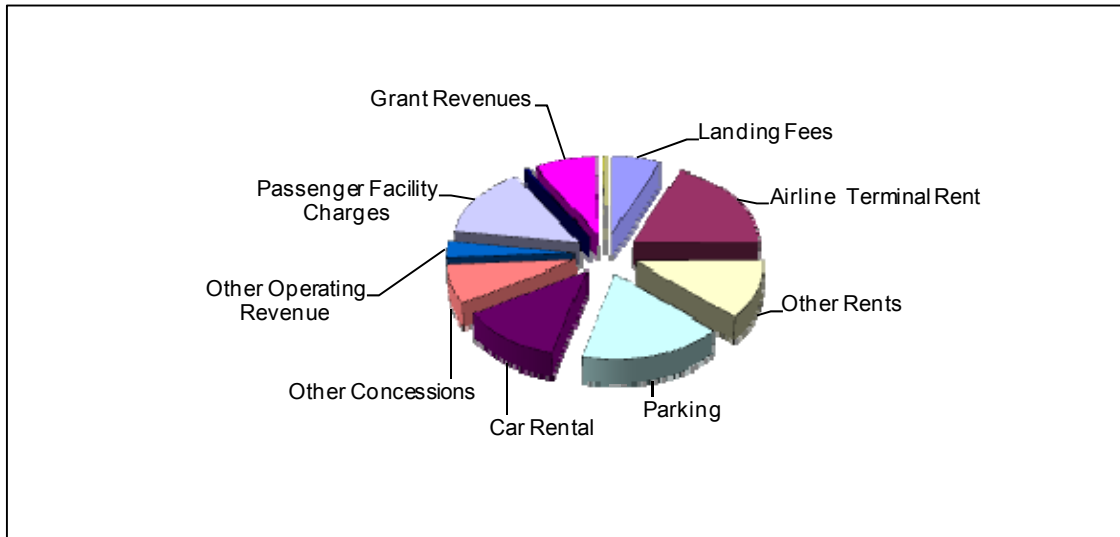
	2013	Change from 2012	% Change from 2012
Jetblue	1,465,078	150,388	11%
Delta	1,423,349	72,039	5%
U.S. Airways	806,407	30,281	4%
Southwest	774,019	(174,052)	(18)%
United	622,734	(78,149)	(11)%
American	377,632	32,044	9%
Air Canada	62,958	9,622	18%
Silver Airways	46,039	34,287	292%
Spirit	44,655	(2,554)	(5)%
Bahamas Air	18,482	532	3%
Others	6,860	(2,102)	(23)%
Direct Air	-	(24,012)	(100)%
Total	5,648,213	48,324	1%

Palm Beach County Department of Airports

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

Revenues

The following chart and table summarize revenues for the year ended September 30, 2013:



	2013	Percent of Total	Change from 2012	% Change from 2012
Operating:				
Landing fees	\$ 5,415,681	6%	\$ (736,111)	(12)%
Airline terminal rent	15,685,375	19%	(35,234)	(0)%
Other rental revenue	9,849,941	12%	(267,818)	(3)%
Parking	14,748,079	18%	247,536	2%
Car rental concessions	10,333,445	12%	350,837	4%
Other concessions	6,480,351	8%	278,111	4%
Other operating revenue	2,860,379	3%	58,034	2%
Total operating revenues	65,373,251	78%	(104,645)	(0)%
Other Sources:				
Passenger facility charges	11,679,691	14%	165,212	1%
Investment income	(322,869)	0%	(1,966,556)	(120)%
Contributions of assets	238,171	0%	(109,762)	(32)%
Grants and other items	6,871,367	8%	(1,479,551)	(18)%
Total other sources	18,466,360	22%	(3,390,657)	(16)%
Total revenues	\$ 83,839,611	100%	\$ (3,495,302)	(4)%

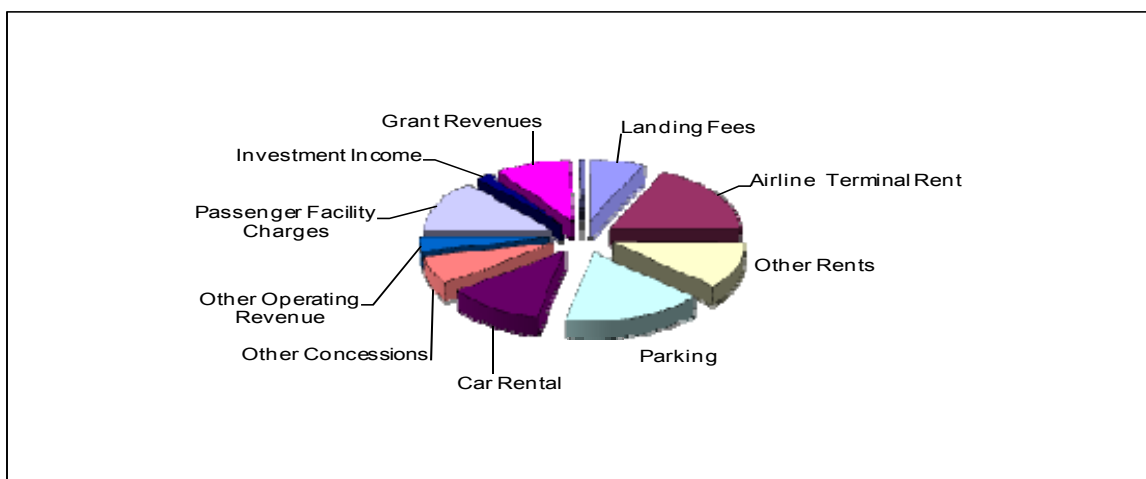
Airline terminal rent remained unchanged. Landing fees declined 12% due to decreased landing fee rates and declines in commercial airline landed weight. Concession revenues were up 4% and parking revenues were up 2%. Investment income resulted in a \$323,000 loss due to fair market value adjustments on investment holdings. This decline represented a decrease of \$2 million from the prior year results.

Palm Beach County Department of Airports

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

Revenues (Continued)

The following chart and table summarize revenues for the year ended September 30, 2012:



	2012	Percent of Total	Change from 2011	% Change from 2011
Operating:				
Landing fees	\$ 6,151,792	7%	\$ (128,067)	(2)%
Airline terminal rent	15,720,609	18%	(1,890,586)	(11)%
Other rental revenue	10,117,759	12%	848,356	9%
Parking	14,500,543	17%	(232,861)	(2)%
Car rental concessions	9,982,608	11%	465,350	5%
Other concessions	6,202,240	7%	(47,522)	(1)%
Other operating revenue	2,802,345	3%	53,717	2%
Total operating revenues	65,477,896	75%	(931,613)	(1)%
Other Sources:				
Passenger facility charges	11,514,479	13%	(621,255)	(5)%
Investment income	1,643,687	2%	(448,111)	(21)%
Contributions of assets	347,933	0%	74,740	27%
Grants and other items	8,350,918	10%	(510,607)	(6)%
Total other sources	21,857,017	25%	(1,505,233)	(6)%
Total revenues	\$ 87,334,913	100%	\$ (2,436,846)	(3)%

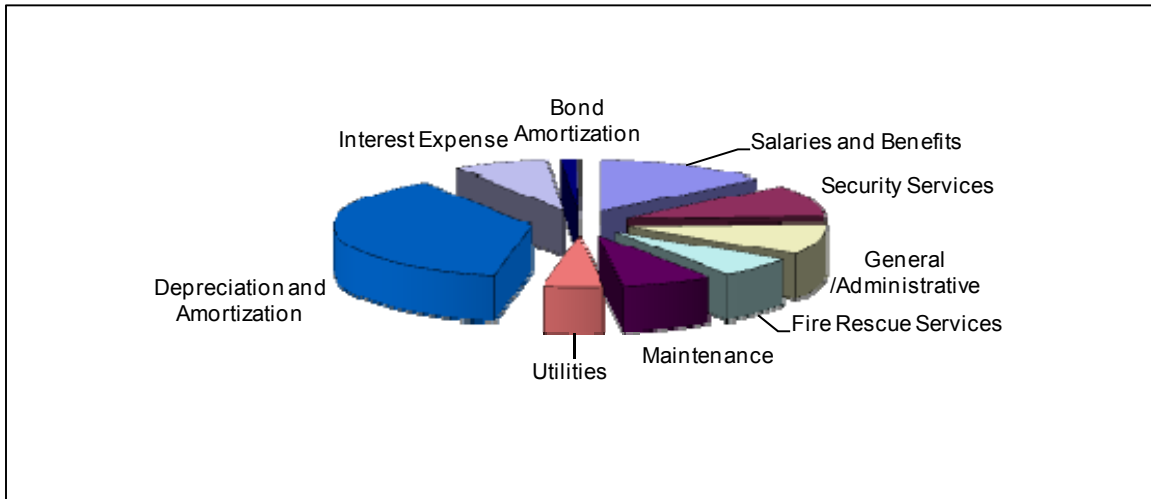
Airline terminal rent decreased 11% over the prior year due to decreased leasehold area and decreased rates driven by lower terminal costs. Other rental revenues were up 9% due to increased ground and building rents to aviation and non-aviation customers. Aviation rents in this category are primarily from the Fixed Base Operators who continue to experience growth in the general aviation market at PBIA. Car rental concession revenue was up by 5% over the prior year. Investment income declined by 21% due to continued declines in effective interest rates for deposits.

Palm Beach County Department of Airports

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

Expenses

The following chart and table summarize expenses for the year ended September 30, 2013:



	2013	Percent of Total	Change from 2012	% Change from 2012
Operating:				
Salaries and benefits	\$ 10,621,220	14%	\$ 289,860	3%
Security services	7,716,628	10%	18,632	0%
General/administrative	7,323,111	10%	(699,545)	(9)%
Fire rescue services	4,806,917	6%	(580,827)	(11)%
Maintenance	5,598,221	7%	259,185	5%
Utilities	3,707,205	5%	(46,193)	(1)%
Total operating	39,773,302	52%	(758,888)	(2)%
Depreciation and amortization	28,586,881	39%	1,653,523	6%
Nonoperating:				
Interest expense	5,802,100	8%	(632,218)	(10)%
Gain (loss) on disposal of capital assets	917,468	1%	932,405	100%
Bond amortization	53,056	0%	(162)	(0)%
Transfers to Other County Funds	37,421	0%	(212)	(1)%
Total nonoperating	6,810,045	9%	299,813	5%
Total expenses	\$ 75,170,228	100%	\$ 1,194,448	2%

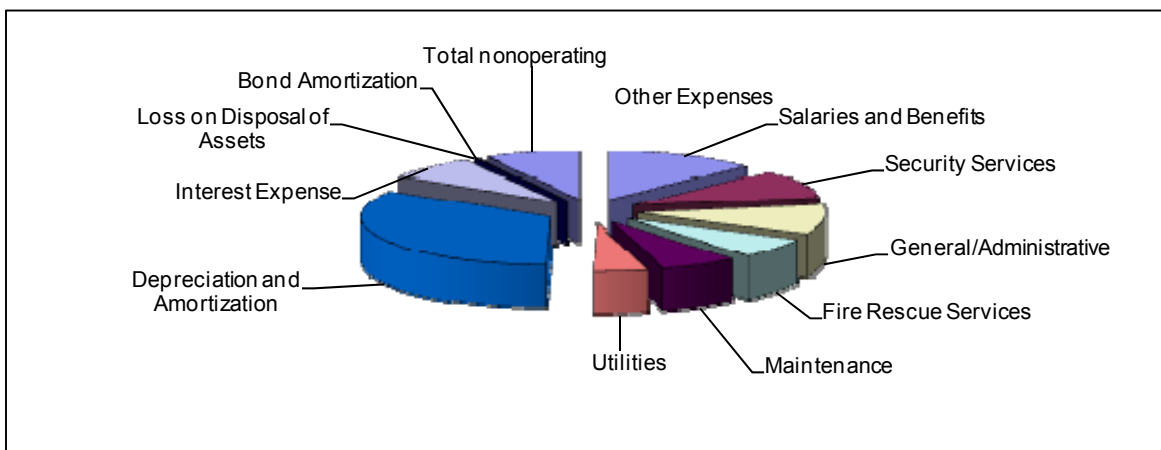
Operating expenses decreased 2% due to cost cutting measures implemented by the Department. Fire Rescue services decreased 11% primarily as a result of reduced staffing compared to the prior year. General/Administrative costs decreased 9% due to savings in contractual services and indirect costs charged by County Government agencies for services rendered.

Palm Beach County Department of Airports

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

Expenses (Continued)

The following chart and table summarize expenses for the year ended September 30, 2012:



	2012	Percent of Total	Change from 2011	% Change from 2011
Operating:				
Salaries and benefits	\$ 10,331,360	14%	\$ (446,088)	(4)%
Security services	7,697,996	11%	(138,498)	(2)%
General/administrative	8,022,656	11%	1,948	0%
Fire rescue services	5,387,744	7%	(264,381)	(5)%
Maintenance	5,339,036	7%	(400,063)	(7)%
Utilities	3,753,398	5%	(199,017)	(5)%
Total operating	40,532,190	55%	(1,446,099)	(3)%
Depreciation and amortization	26,933,358	36%	851,257	3%
Nonoperating:				
Interest expense	6,434,318	9%	(590,526)	(5)%
Bond amortization	53,218	0%	(499,501)	(11)%
Transfers to Other County Funds	37,633	0%	-	(96)%
Total nonoperating	6,525,169	9%	(1,090,027)	(14)%
Total expenses	\$ 73,990,717	100%	\$ (1,684,869)	(2)%

Operating expenses decreased 3% due to cost cutting measures implemented by the Department. Salaries and benefit costs decreased 4% primarily as a result of reduced pension costs over the full period compared to the partial period of the prior year in which the costs changed. Fire rescue costs decreased 5% due to further refinement of the services agreement and reduced pension costs of Fire Rescue personnel. Maintenance costs declined 7% due to further cost control in a wide variety of expenditure categories.

Palm Beach County 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:

	2013	2012	2011
Cash flows provided by operating activities	\$ 24,752,735	\$ 23,420,601	\$ 25,864,656
Cash flows provided by (used in) investing activities	(188,264)	1,770,868	2,216,133
Cash flows provided by (used in) noncapital financing activities	533,812	700,936	(37,633)
Cash flows used in capital and related financing activities	(18,140,775)	(23,091,836)	(8,995,229)
Net increase in cash and cash equivalents	6,957,508	2,800,569	19,047,927
Cash and cash equivalents:			
Beginning of year	126,127,315	123,326,746	104,278,819
End of year	\$ 133,084,823	\$ 126,127,315	\$ 123,326,746

Capital Acquisitions and Construction Activities

During 2013, the Department expended \$17.1 million on capital activities. Completed projects during 2013 totaling \$31.31 million were transferred from construction-in-progress to their respective capital accounts. The major projects completed fiscal year 2013 involved airfield, parking garage and terminal improvements, as follows:

PBIA Runway 10L-28R	\$12.4 million
EIS Runway OBI	5.8 million
Terminal Chillers	3.9 million
Terminal Roof Rehab	2.1 million
Lantana Taxiway C	1.5 million

During 2012, the Department expended \$26.5 million on capital activities. Completed projects during 2012 totaling \$17.1 million were transferred from construction-in-progress to their respective capital accounts. The major projects completed fiscal year 2012 involved airfield, parking garage and terminal improvements, as follows:

Taxiway L	\$8.1 million
Taxiway C4	2.1 million
Parking Garage Rehab Phase I	1.8 million
Terminal Flooring Phase I	1.7 million

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

Palm Beach County Department of Airports

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

Long-Term Debt

The Department had outstanding long-term debt of \$98.4 and \$110.5 million as of September 30, 2013 and 2012, respectively. 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 2013:

	Balance at October 1, 2012	Additions	Reductions	Balance at September 30, 2013	Due Within One Year
Revenue Bonds:					
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	16,855,000	-
Series 2002	35,140,000	-	10,995,000	24,145,000	11,645,000
	<u>\$ 121,075,000</u>	<u>\$ -</u>	<u>\$ 10,995,000</u>	<u>110,080,000</u>	<u>\$ 11,645,000</u>
Less current maturities				<u>11,645,000</u>	
Long-term portion				<u>98,435,000</u>	
Add unamortized premium				429,506	
Less unamortized loss on refunding				(56,449)	
Total				<u>\$ 98,808,057</u>	

The following table reflects the debt activities that occurred during Fiscal Year 2012:

	Balance at October 1, 2011	Additions	Reductions	Balance at September 30, 2012	Due Within One Year
Revenue Bonds:					
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	16,855,000	-
Series 2002	45,410,000	-	10,270,000	35,140,000	10,995,000
	<u>\$ 131,345,000</u>	<u>\$ -</u>	<u>\$ 10,270,000</u>	<u>121,075,000</u>	<u>\$ 10,995,000</u>
Less current maturities				<u>10,995,000</u>	
Long-term portion				<u>110,080,000</u>	
Add unamortized premium				588,689	
Less unamortized loss on refunding				(165,485)	
Total				<u>\$ 110,503,204</u>	

The County has not issued any new revenue bonds during fiscal years 2013 and 2012 and has no plans in the short or medium time frame for any new issues. The changes in debt in 2013 and 2012 represent payment of the required annual principal amounts per the maturity schedules. See Note 6, Revenue Bonds and Loan Payable, in the notes to the financial statements for additional information.

Palm Beach County Department of Airports

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

Credit Ratings and Bond Insurance

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

Passenger Facility Charges

The Department, as of September 30, 2013, has collected \$193,813,111 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 \$151,120,864 over the same time period. As of September 30, 2013, the Department was authorized to collect \$217.6 million in PFC revenues. The Department's PFC level was authorized at \$4.50 per enplaned passenger.

Economic Factors and Next Year's Budgets and Rates

- Palm Beach County saw significant growth in population and housing during the period of 2000 through 2006. 2007 through 2010 were down periods for real estate and construction due to the poor national economy and local real estate issues of valuation and foreclosures. Since then the Palm Beach County real estate market has recovered somewhat, exhibiting annual residential property growth statistics in the double digits for both property values and unit sales in recent months. However, total property values for Palm Beach County are still below peak values achieved in 2007 (Source: Palm Beach County Property Appraiser 2013 Annual Report). According to US Department of Commerce census data, population growth in Palm Beach County is 2.8%, matching Florida and slightly exceeding the national average. Census statistics show a generally strong economic demographic for residents. Palm Beach County per capita income and home ownership statistics exceed the Florida and US averages.
- Palm Beach County Tourism statistics have shown rebounds during 2012, exhibiting increased occupancy and ADR (average daily rate) for hotel properties. These statistics exceeded the Florida and national averages as well. In future periods the County expects modest increases in occupancy accelerating as more room inventory is expected to be added in the 2017-2018 time period.(Source: Palm Beach County Convention and Visitors Bureau 2013 – 2014 Marketing and Sales Plan).

The Department of Airport's 2014 operating expense budget totals \$43.8, not including interfund transfers and reserves, which represents a decrease of 1% from the prior year budget; additionally the Department expects actual expenditures will be somewhat less than the budgeted amount with expected expenditures to be within the range of \$40.5 to \$41.5 million. The Department continues its cost containment practices to insure the prior year's cost cutting measures continue to improve airline rates. Operating revenues are budgeted at \$64.9 million for fiscal year 2014, a slight decrease compared to actual 2013 operating revenues.

Immediate capital project plans remain conservative with no major expansion of facilities. The Department plans to begin a large baggage system improvement that will be conducted in multiple phases over the next two to four years which will provide customer enhancements and in-line operations for baggage screening. This project will cost an estimated \$29 million and will be funded with PFC collections and Homeland Security grants.

The Fiscal 2014 terminal rates average \$65.69 per square foot; landing fees are \$1.327 per 1,000 lbs. of landed weight. Fiscal 2013 terminal rates average \$64.66 per square foot; landing fees were \$1.37 per 1,000 lbs. of landed weight. Airline cost per enplanement for fiscal year 2014 is expected to decrease to approximately \$7.20 compared to \$7.40 for fiscal year 2013.

Palm Beach County Department of Airports

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

Request for Information

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

Palm Beach County Department of Airports

**Statements of Net Position
September 30, 2013 and 2012**

Assets	2013	2012
Current Assets:		
Pooled cash and cash equivalents	\$ 61,761,742	\$ 48,707,881
Nonpooled cash and cash equivalents	1,100	1,100
Restricted pooled cash and cash equivalents	323,636	186,145
Restricted cash with fiscal agent	14,549,308	14,216,885
Accounts receivable, less allowance for doubtful accounts of \$458,848 and \$458,995 in 2013 and 2012, respectively	2,458,316	2,479,007
Government grants receivable	1,746,661	3,174,478
Due from other funds	234,710	347,605
Current portion of other receivable	142,451	134,600
Inventories	1,427,974	1,244,288
Other current assets	1,023,791	1,046,708
Total current assets	83,669,689	71,538,697
Noncurrent Assets:		
Restricted assets:		
Pooled cash and cash equivalents	13,934,163	14,887,033
Nonpooled cash and cash equivalents	42,514,874	48,128,271
Accounts receivable	1,742,515	1,739,966
Total noncurrent restricted assets	58,191,552	64,755,270
Capital assets:		
Land	100,114,058	100,016,274
Construction in progress	9,494,815	24,238,160
Depreciable capital assets, net of accumulated depreciation	258,458,752	256,187,259
Total capital assets	368,067,625	380,441,693
Other noncurrent assets:		
Deferred bond issuance costs	1,219,693	1,322,896
Other receivable, net of current portion and discount of \$12,582 and \$30,878 in 2013 and 2012, respectively	74,311	216,762
Total other noncurrent assets	1,294,004	1,539,658
Total noncurrent assets	427,553,181	446,736,621
Total assets	\$ 511,222,870	\$ 518,275,318

See Notes to Financial Statements.

	2013	2012
Liabilities and Net Position		
Current liabilities:		
Accounts and contracts payable	\$ 2,551,814	\$ 6,737,673
Compensated absences payable	52,753	53,133
Unearned revenue	142,995	155,889
Due to other funds	91,591	241,888
Due to other governments	123,268	186,018
Current portion of long term liabilities	8,189	45,292
Due to Component Unit	-	209
Other current liabilities	567,228	557,534
Total current liabilities	3,537,838	7,977,636
Current liabilities payable from restricted assets:		
Accounts and contracts payable	70,921	26,970
Security deposits	255,975	163,900
Interest payable on revenue bonds	2,901,048	3,217,160
Current maturities of revenue bonds	11,645,000	10,995,000
Total current liabilities payable from restricted assets	14,872,944	14,403,030
Long-term liabilities:		
Other long-term liabilities	42,569	76,646
Compensated absences payable	1,062,970	1,029,773
Revenue bonds payable (less current maturities)	98,808,057	110,503,204
Total long-term liabilities	99,913,596	111,609,623
Total liabilities	118,324,378	133,990,289
Net position:		
Net investment in capital assets	257,614,568	258,943,490
Restricted:		
Passenger facility charges	44,465,414	45,006,150
Debt service	13,220,549	13,230,155
Renewal and replacement	2,386,456	2,956,030
Operation and maintenance	7,380,319	7,355,211
Capital outlay	4,299,397	4,222,282
	71,752,135	72,769,828
Unrestricted	63,531,789	52,571,711
Total net position	\$ 392,898,492	\$ 384,285,029

Palm Beach County Department of Airports

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012**

	2013	2012
Operating revenues:		
Rentals	\$ 25,535,316	\$ 25,838,368
Concessions	31,561,875	30,685,391
Landing fees	5,415,681	6,151,792
Other	2,860,379	2,802,345
Total operating revenues	65,373,251	65,477,896
Operating expenses:		
Employee compensation and benefits	10,621,220	10,331,360
General and administrative	7,323,111	8,022,656
Maintenance	5,598,221	5,339,036
Contracted security services	7,716,628	7,697,996
Contracted fire-rescue services	4,806,917	5,387,744
Utilities	3,707,205	3,753,398
Total operating expenses before depreciation and amortization	39,773,302	40,532,190
Operating income before depreciation and amortization	25,599,949	24,945,706
Depreciation and amortization	28,586,881	26,933,358
Operating loss	(2,986,932)	(1,987,652)
Nonoperating revenues (expenses):		
Investment income (loss)	(322,868)	1,643,687
Passenger facility charges	11,679,691	11,514,479
Interest expense	(5,802,100)	(6,434,318)
Gain (loss) on disposal of capital assets	(917,468)	14,937
Amortization of revenue bond costs	(53,056)	(53,218)
Other revenues (expenses)	333,062	392,729
Total nonoperating revenues (expenses), net	4,917,261	7,078,296
Income before contributions and transfers	1,930,329	5,090,644
Airport improvement capital grants	6,281,814	7,943,252
Capital contributions from other funds	200,570	-
Transfers from other county funds	238,171	347,933
Transfers to other county funds	(37,421)	(37,633)
Change in net position	8,613,463	13,344,196
Net position at beginning of year	384,285,029	370,940,833
Net position at end of year	\$ 392,898,492	\$ 384,285,029

See Notes to Financial Statements.

Palm Beach County Department of Airports

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Cash received from customers	\$ 65,595,266	\$ 63,905,800
Cash payments to vendors for goods and services	(13,308,677)	(13,801,188)
Cash payments to employees for services	(10,637,634)	(10,378,557)
Cash payments to other funds	(16,896,220)	(16,305,454)
Net cash provided by operating activities	24,752,735	23,420,601
Cash Flows From Noncapital Financing Activities		
Operating grants and other	333,062	390,636
Transfer from (to) other county funds	200,750	310,300
Net cash provided by noncapital financing activities	533,812	700,936
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(20,398,401)	(23,737,103)
Proceeds from sale of capital assets	55,916	19,124
Principal repayment on revenue bonds	(10,995,000)	(10,270,000)
Passenger facility charges received	11,668,041	10,394,081
Receipt of capital grants and reimbursements	7,646,881	7,231,642
Interest and fiscal charges paid	(6,118,212)	(6,729,580)
Net cash used in capital and related financing activities	(18,140,775)	(23,091,836)
Cash Flows From Investing Activities		
Receipt of repayments on other receivables	134,600	127,181
Interest and gains or losses on investments	(322,864)	1,643,687
Net cash (used in) provided by investing activities	(188,264)	1,770,868
Net increase in cash and cash equivalents	6,957,508	2,800,569
Cash and cash equivalents at beginning of year (including for 2013 \$77,418,334 and for 2012 \$76,663,515 in restricted accounts)	126,127,315	123,326,746
Cash and cash equivalents at end of year (including for 2013 \$71,321,981 and for 2012 \$77,418,334 in restricted accounts)	\$ 133,084,823	\$ 126,127,315

(Continued)

Palm Beach County Department of Airports

Statements of Cash Flows (Continued)
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Loss to Net Cash Provided By		
Operating Activities:		
Operating loss	\$ (2,986,932)	\$ (1,987,652)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	28,586,881	26,933,358
Provision for doubtful accounts	(147)	-
Changes in assets and liabilities:		
Accounts receivable	29,939	(973,661)
Due from other funds	112,895	(344,339)
Inventories	(183,686)	(62,268)
Other current assets	22,917	16,243
Accounts and contracts payable	(729,138)	175,985
Compensated absences payable	32,817	(28,929)
Unearned revenues	(12,894)	(250,078)
Due to other funds	(150,297)	29,528
Other liabilities	(61,695)	(83,568)
Security deposits	92,075	(4,018)
Total adjustments	27,739,667	25,408,253
Net cash provided by operating activities	\$ 24,752,735	\$ 23,420,601

Supplemental Disclosures of Noncash Capital and Related

Financing Activities:

Amortization of premium on bonds, including write off	\$ 159,183	\$ 225,794
Amortization of deferred advance refunding loss	\$ 109,036	\$ 158,688
Capital assets in accounts and contracts payable	\$ 3,412,770	\$ 2,528,515
Contributions of capital assets from other funds	\$ 200,570	\$ -
Amortization of deferred issuance cost	\$ 103,203	\$ 120,325
Disposition of fully depreciated capital assets	\$ 1,640,699	\$ 1,644,053

See Notes to Financial Statements.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Palm Beach County (the "County") is a chartered political subdivision of the State of Florida and is granted the power of self-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.

B. Basis of Presentation

The Department of Airports operates the Airports as an enterprise fund of the County. An enterprise fund is used to account for the financing of services to the general public where all or most of the costs incurred are recovered in the form of charges to users of such services.

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

C. Basis of Accounting

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

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

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

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

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

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

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

D. Implementation of Governmental Accounting Standards Board (GASB) Statements

The Department implemented GASB Statement No. 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-1989 FASB and AICPA Pronouncements*". This implementation did not have a significant effect on the financial statements. The Department also implemented GASB Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." This statement provides guidance for deferred outflows of resources and deferred inflows of resources. It further identified net position as the residual of all other elements presented in a statement of financial position. This statement redefines certain assets and liabilities as deferred outflows or inflows of resources. It further requires that "Capital assets, net of debt now be titled "Net investment in capital assets" and that the term Net Assets be replaced with the term Net Position.

E. 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 statement of net assets and the statement of 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.

F. Accounts Receivable

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

G. Inventories

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

H. Capital Assets

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

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

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as “noise-impacted” surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration (“FAA”) Noise Abatement Grant Program for reimbursement. Those items that are deemed to be capital expenditures are recorded as capital asset additions when the costs are incurred. The FAA funds approximately 80% of these costs with the remainder financed by the State of Florida and the Department of Airports. The FAA retains a continuing interest in the properties equal to its original funding percentage and restricts the use of such properties to purposes which are compatible with noise levels associated with the operation of Airports. The total cost associated with acquiring these parcels of land are \$49,866,823 at September 30, 2013 and 2012, 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 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.

I. Intangible Assets

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

J. Security Deposits

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

K. Unearned Revenue

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

L. Restricted Assets

Certain assets are restricted in accordance with the provisions of the Bond Resolution (“Resolution”) and in accordance with FAA restrictions. Assets restricted under the Resolution which are designated primarily for payment of debt service are \$16,178,047 and \$16,309,384 at September 30, 2013 and 2012, respectively, and the retention of the operation and maintenance reserve of \$7,380,319 and \$7,355,211 at September 30, 2013 and 2012, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately \$2,274,698 and \$2,287,221 at September 30, 2013 and 2012, respectively, and results from the sale of excess land previously contributed by the FAA and not required for aviation purposes. These assets are restricted until appropriated for FAA approved projects. In addition, the Department of Airports also has restricted assets of approximately \$44,465,414 and \$49,836,009 at September 30, 2013 and 2012, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

M. Amortization

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

N. Interest

Interest costs are expensed or capitalized in accordance with the provisions of GASB Statement No. 62. The amount of interest cost incurred was \$5,802,100 and \$6,434,318 for the fiscal years ended September 30, 2013 and 2012, respectively, which none was recorded as capitalized interest in either fiscal year as the construction activity conducted by the Airports is funded through capital grants and/or passenger facility charges.

O. Compensated Absences

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

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

P. Passenger Facility Charges

In 1994, the FAA began a program allowing Airports to collect a \$3 Passenger Facility Charge ("PFC") per enplaned passenger. The monies collected under this program must be used for capital-related improvements to the Airport facilities and all expenditures of these funds must be preapproved by the FAA. PFC revenue is treated as non-operating revenue in the financial statements. On October 9, 2007, the Federal Aviation Administration approved an amendment to the PFC collection authorization increasing the PFC fee from \$3.00 to \$4.50 per enplaned passenger effective July 2008. Total collection authority for the Department is \$217.6 million. Cumulative PFC expenditures through September 30, 2013, total \$151.1 million.

Q. Capital Contributions

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

Palm Beach County Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

R. Use of Estimates

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

S. Use of Restricted Resources

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

Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of the following at September 30, 2013 and 2012:

	2013	2012
County Internal Investment Pool	\$ 76,019,541	\$ 63,781,059
Non-pooled Money Market Funds	42,514,874	48,128,271
Cash with fiscal agent	14,549,308	14,216,885
Petty cash	1,100	1,100
Total	<u>\$ 133,084,823</u>	<u>\$ 126,127,315</u>

Amounts as presented in the financial statements are as follows:

Unrestricted pooled cash and cash equivalents	\$ 61,761,742	\$ 48,707,881
Nonpooled cash and cash equivalents	1,100	1,100
	<u>61,762,842</u>	<u>48,708,981</u>
Restricted pooled cash and cash equivalents	14,257,799	15,073,178
Restricted nonpooled cash and cash equivalents	42,514,874	48,128,271
Restricted cash with fiscal agent	14,549,308	14,216,885
	<u>71,321,981</u>	<u>77,418,334</u>
Total	<u>\$ 133,084,823</u>	<u>\$ 126,127,315</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 \$1.294 and \$1.246 billion as of September 30, 2013 and 2012, respectively, of which approximately 49% 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.

Palm Beach County Department of Airports

Notes to Financial Statements

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

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

As of September 30, 2013, the Department of Airports had \$14,549,308 on deposit with a fiscal agent as required by the bond documents and \$42,514,198 of PFC monies held in a non-pooled money market account; the Department had the following underlying investments:

Investments	Fair Value	Percentage of Total	Maturity	Standard & Poor's Investment Rating Service
Bank of New York Mellon Cash and Short Term Money Market Account	\$ 14,549,308	100%	Less than 1 yr	AAAm
Wells Fargo Advantage Heritage Fund Institutional Class	\$ 42,514,198	100%	Less than 1 yr	AAAm

As of September 30, 2012, the Department of Airports had \$14,216,885 on deposit with a fiscal agent as required by the bond documents and \$48,017,059 of PFC monies held in a non-pooled money market account; the Department had the following underlying investments:

Investments	Fair Value	Percentage of Total	Maturity	Standard & Poor's Investment Rating Service
Fidelity U.S. Treasury Portfolio Money Market Mutual Fund	\$ 14,216,885	100%	Less than 1 yr	AAAm
Invesco Government & Agency Portfolio – Money Market Fund	\$ 48,017,059	100%	Less than 1 yr	AAAm

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

Palm Beach County Department of Airports

Notes to Financial Statements

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

Investments

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

Note 3. Capital Assets

	Balance at October 1, 2012	Additions	Retirements	CIP Transfer	Balance at September 30, 2013
Depreciable capital assets					
Buildings	\$ 354,852,863	\$ -	\$ (702,134)	\$ 7,275,708	\$ 361,426,437
Improvements other than buildings	222,957,115	-	(11,732,733)	23,944,438	235,168,820
Furniture, fixtures and equipment	41,463,078	611,615	(502,012)	-	41,572,681
Intangible – easement rights	13,754,957	-	-	-	13,754,957
Total depreciable capital assets	633,028,013	611,615	(12,936,879)	31,220,146	651,922,895
Less accumulated depreciation					
Buildings	184,636,505	15,076,916	(454,863)	-	199,258,558
Improvements other than buildings	160,595,685	9,847,565	(11,006,621)	-	159,436,629
Furniture, fixtures and equipment	27,761,520	3,318,530	(502,012)	-	30,578,038
Intangible – easement rights	3,847,044	343,874	-	-	4,190,918
Total accumulated depreciation	376,840,754	28,586,885	(11,963,496)	-	393,464,143
Depreciable capital assets, net of accumulated depreciation	256,187,259	(27,975,270)	(973,383)	31,220,146	258,458,752
Nondepreciable capital assets					
Land	100,016,274	979	-	96,805	100,114,058
Construction in progress	24,238,160	16,646,904	-	(31,390,249)	9,494,815
Total capital assets	\$ 380,441,693	\$ (11,327,387)	\$ (973,383)	\$ (73,298)	\$ 368,067,625

Palm Beach County Department of Airports

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	Balance at				Balance at
	October 1,	Additions	Retirements	CIP Transfer	September 30,
	2011				2012
Depreciable capital assets					
Buildings	\$ 352,583,293	\$ -	\$ (1,367,397)	\$ 3,636,967	\$ 354,852,863
Improvements other than buildings	210,352,916	-	(57,996)	12,662,195	222,957,115
Furniture, fixtures and equipment	41,483,137	203,835	(223,894)	-	41,463,078
Intangible – easement rights	13,754,957	-	-	-	13,754,957
Total depreciable capital assets	618,174,303	203,835	(1,649,287)	16,299,162	633,028,013
Less accumulated depreciation					
Buildings	171,148,941	14,854,961	(1,367,397)	-	184,636,505
Improvements other than buildings	152,349,391	8,304,290	(57,996)	-	160,595,685
Furniture, fixtures and equipment	24,553,087	3,430,233	(221,800)	-	27,761,520
Intangible – easement rights	3,503,170	343,874	-	-	3,847,044
Total accumulated depreciation	351,554,589	26,933,358	(1,647,193)	-	376,840,754
Depreciable capital assets, net of accumulated depreciation	266,619,714	(26,729,523)	(2,094)	16,299,162	256,187,259
Nondepreciable capital assets					
Land	99,145,316	36,498	-	834,460	100,016,274
Construction in progress	15,346,497	26,213,063	-	(17,321,400)	24,238,160
Total capital assets	\$ 381,111,527	\$ (479,962)	\$ (2,094)	\$ (187,778)	\$ 380,441,693

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. Contingent rental income under such arrangements amounted to approximately \$1,975,284 and \$2,316,562 for the years ended September 30, 2013 and 2012, respectively. All the Department's leases are operating leases. A significant portion of the airlines and rental car companies operating leases usually run for between two to five years and are scheduled to expire after fiscal year 2014 resulting in a decline in minimum future receipts.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 4. Leases, as Lessor (Continued)

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

Year Ending September 30,	
2014	\$ 38,575,855
2015	23,494,664
2016	22,645,571
2017	11,917,265
2018	12,516,275
Thereafter	58,556,091
	<u>\$ 167,705,721</u>

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Buildings	<u>\$ 239,838,617</u>	\$ 233,291,349
Less accumulated depreciation	<u>157,728,583</u>	144,221,001
	<u>82,110,034</u>	89,070,348
Land	<u>9,168,241</u>	9,172,040
Property held for lease, net	<u>\$ 91,278,275</u>	\$ 98,242,388

Palm Beach County Department of Airports

Notes to Financial Statements

Note 5. Revenue Bonds Payable and Long-Term Obligations

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Series 2006A Revenue Bonds, principal due annually, in various amounts, beginning October 1, 2021 through October 1, 2036, with interest from 4.7% to 5.0% payable semi-annually on October 1 and April 1.	\$ 69,080,000	\$ 69,080,000
Series 2006B Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2015 through October 1, 2020, with interest at 5.9% payable semi-annually on October 1 and April 1.	16,855,000	16,855,000
Series 2002 Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semi-annually on October 1 and April 1.	24,145,000	35,140,000
	110,080,000	121,075,000
Less current portion	11,645,000	10,995,000
	98,435,000	110,080,000
Unamortized bond premium	429,506	588,689
Unamortized loss on refunding	(56,449)	(165,485)
Long-term portion	\$ 98,808,057	\$ 110,503,204

Series 2006 A and B

The proceeds of the Series 2006A, \$69,080,000 Airport System Revenue Bonds, dated May 17, 2006; were used for the construction of an additional 3,200 space long-term parking garage. The garage is necessary to meet additional passenger traffic demands for parking facilities at Palm Beach International Airport. The new garage structure was fully operational in the second quarter of fiscal year 2008. The 2006B Bonds were issued to advance refund and defease a portion of the Series 2001 Bonds and a portion of the Series 2002 Bonds.

Palm Beach County Department of Airports

Notes to Financial Statements

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

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

Accordingly, the Department has pledged for the payment of principal and interest all (Airport System) Net Revenues available for Debt Service, and all Funds and Accounts established by the Bond Resolution. The full faith and credit of the County is not pledged for the payment of Airport indebtedness. Debt service coverage in 2013 was 1.65 times the aggregate debt service. Principal and interest paid for the current year and Net Revenues Available for Debt Service were approximately \$17.4 and \$28.7 million, respectively.

Series 2002

The proceeds of the Series 2002, \$60,150,000 Airport System Revenue Refunding Bonds, dated July 1, 2002; 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 of this Series amounting to \$14,740,000 was defeased during fiscal year 2006 by placing monies with an escrow depository. The balance of the defeased portion of this Series as of September 30, 2013 is \$7,800,000.

Palm Beach County Department of Airports

Notes to Financial Statements

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

A summary of changes in long-term obligations for the years ended September 30, 2013 and 2012 is as follows:

	Balance at October 1, 2012	Additions	Retirements	Reductions	Balance at September 30, 2013	Due Within One Year
Revenue bonds:						
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	35,140,000	-	-	10,995,000	24,145,000	11,645,000
OPEB	68,457	-	-	25,888	42,569	-
Termination benefits	53,481	-	-	45,292	8,189	8,189
Compensated absences payable	1,082,906	32,817	-	-	1,115,723	52,753
	<u>\$ 122,279,844</u>	<u>\$ 32,817</u>	<u>\$ -</u>	<u>\$ 11,066,180</u>	<u>111,246,481</u>	<u>\$ 11,705,942</u>
Less current maturities					<u>11,705,942</u>	
Long-term portion					<u>99,540,539</u>	
Add unamortized bond premium					429,506	
Less unamortized loss on refunding					<u>(56,449)</u>	
Total					<u>\$ 99,913,596</u>	
	Balance at October 1, 2011	Additions	Retirements	Reductions	Balance at September 30, 2012	Due Within One Year
Revenue bonds:						
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	45,410,000	-	-	10,270,000	35,140,000	10,995,000
OPEB	42,249	26,208	-	-	68,457	-
Termination benefits	121,197	-	-	67,716	53,481	45,292
Compensated absences payable	1,111,835	-	-	28,929	1,082,906	53,133
	<u>\$ 132,620,281</u>	<u>\$ 26,208</u>	<u>\$ -</u>	<u>\$ 10,366,645</u>	<u>122,279,844</u>	<u>\$ 11,093,425</u>
Less current maturities					<u>11,093,425</u>	
Long-term portion					<u>111,186,419</u>	
Add unamortized bond premium					588,689	
Less unamortized loss on refunding					<u>(165,485)</u>	
Total					<u>\$ 111,609,623</u>	

Palm Beach County Department of Airports

Notes to Financial Statements

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

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

Year Ending September 30,	Principal	Interest	Total
2014	\$ 11,645,000	\$ 5,467,312	\$ 17,112,312
2015	12,500,000	4,773,143	17,273,143
2016	2,425,000	4,342,170	6,767,170
2017	2,565,000	4,194,840	6,759,840
2018	2,715,000	4,038,948	6,753,948
2019 – 2023	15,135,000	17,627,609	32,762,609
2024 – 2028	17,795,000	13,458,775	31,253,775
2029 – 2033	22,710,000	8,419,400	31,129,400
2034 – 2037	22,590,000	2,219,786	24,809,786
	<u>\$ 110,080,000</u>	<u>\$ 64,541,983</u>	<u>\$ 174,621,983</u>

Note 6. 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, 2013 and 2012, the net receivable was \$216,762 (less current portion of \$142,451 and net of discount of \$12,582) and receivable was \$351,361 (less current portion of \$134,600 and net of discount of \$30,878), respectively.

Note 7. Defined Benefit Pension Plan

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

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

Palm Beach County Department of Airports

Notes to Financial Statements

Note 7. Defined Benefit Pension Plan (Continued)

Funding policy: Effective July 2011, plan members are required to contribute 3% of salary cost to the System. The Department of Airports is required to contribute at an actuarially determined rate, which effective July 2010 is 4.91% of annual covered payroll, for a total contribution of 7.91%. 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, 2013, 2012 and 2011, were approximately \$474,000, \$393,000, and \$701,000, respectively, and were equal to the required contributions for each year.

Note 8. 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 \$4.487 and \$3.495 million for the years ended September 30, 2013 and 2012, 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, 2013 and 2012, totaled approximately \$424,000 and \$414,000, respectively. At September 30, 2013 and 2012, there was a receivable from other funds and departments of Palm Beach County of \$232,293 and \$347,605, respectively. At September 30, 2013 and 2012, \$91,591 and \$241,888, respectively, was payable to other Palm Beach County funds and departments.

The Department of Airports also contracts directly with the Palm Beach County Sheriff's Department for security services at Palm Beach International Airport. The cost of these services from the Sheriff's Department was approximately \$7.5 million for both the years ended September 30, 2013 and 2012. 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 \$4.8 and \$5.4 million for the years ended September 30, 2013 and 2012, respectively.

Note 9. Major Customers

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

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

Palm Beach County Department of Airports

Notes to Financial Statements

Note 9. Major Customers (Continued)

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

Airline	Percent of Activity Based Upon Enplaned Passengers	
	Years Ended September 30,	
	2013	2012
Jet Blue	25.9%	23.7%
Delta	25.2%	24.0%
US Airways	14.3%	13.9%
Southwest	13.8%	16.9%
United	11.0%	12.6%
American	6.6%	6.1%
Others	3.2%	2.8%
	100.0%	100.0%

Note 10. Commitments and Contingencies

Litigation

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

Grants

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

Risk Management

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

The Department of Airports participates in the County-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department of Airports 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 \$1,955,000 and \$1,654,000 for the years ended September 30, 2013 and 2012, respectively. While each of these county-wide self-insurance programs is subject to potential losses in excess of the amounts that have been accrued and funded as of September 30, 2013 and 2012, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

Palm Beach County Department of Airports

Notes to Financial Statements

Note 10. 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, 2013 and 2012, the remaining commitment on these uncompleted contracts was \$10,512,492 and \$13,036,166, respectively, which is summarized as follows:

	Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
2013	\$ 69,777,292	\$ 57,079,806	\$ 38,355	\$ 10,512,492
2012	\$ 62,600,652	\$ 45,050,896	\$ 345,982	\$ 13,036,166

Note 11. Other Post-Employment Benefits

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

Pursuant to Section 112.0801, Florida Statutes, the 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.

As determined by an actuarial valuation, the County records a Net OPEB obligation in its government-wide financial statements related to the implicit subsidy. The Department participates in the County's plan on an allocation basis, which is approximately 10% – 15% of the County's obligation. See the County's Comprehensive Annual Financial Report for disclosures relating to the funding policy, funding status, funding progress and actuarial methods and assumptions. Based on the Net OPEB allocation applicable to the Department, the following table reflects the components of the annual OPEB cost and obligation for the years ended September 30, 2013 and 2012:

	2013	2012
Annual required contribution (ARC)	\$ 41,000	\$ 42,000
Interest on net OPEB obligation	(1,291)	(610)
Adjustment to annually required contributions	1,130	542
Annual OPEB cost	40,839	41,932
Contributions made	(66,727)	(15,724)
Change in net OPEB obligation	(25,888)	26,208
Net OPEB obligation – beginning of year	68,457	42,249
Net OPEB obligation – end of year	\$ 42,569	\$ 68,457

The Department of Airports Net OPEB obligation is reported on the Statement of Net Position as part of other long term liabilities.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of net position of the Palm Beach County, Florida Department of Airports as of September 30, 2013, 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 25, 2014.

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

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

McGladrey LLP

West Palm Beach, Florida
March 25, 2014



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

The Honorable Board of County Commissioners
Palm Beach County, Florida

We have audited 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, the accompanying statement of net position of the Palm Beach County, Florida Department of Airports (the "Department") as of September 30, 2013, 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 25, 2014.

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) to determine the 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 may exist that have not been 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 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*.

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.

McGladrey LLP

West Palm Beach, Florida
March 25, 2014