

Palm Beach County, Florida Department of Airports

Financial Report
September 30, 2016

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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, 2016 and 2015, 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 audits 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, 2016 and 2015, and the changes in its 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 of the 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, 2016 and 2015, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of the Department's proportionate share of the net pension liability for the Florida Retirement System Pension Plan (FRS) and Health Insurance Subsidy Pension Plan (HIS), and schedules of contributions for the FRS and HIS plans, 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 April 10, 2017 and June 21, 2016, 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 these reports 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. These reports are 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.

RSM US LLP

West Palm Beach, Florida
April 10, 2017

Palm Beach County, Florida Department of Airports

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

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, 2016. 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 2016 results showed a 2.6% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,171,694.

Fiscal year 2015 results showed a 6.1% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,090,339.

The following table shows a summary of various activities:

| | 2016 | 2015 | 2014 |
|------------------------|-----------|-----------|-----------|
| Enplanements | 3,171,694 | 3,090,339 | 2,913,818 |
| % Change | 2.6% | 6.1% | 3.0% |
| Air Carrier Operations | 54,758 | 53,660 | 51,930 |
| % Change | 2.0% | 3.3% | 1.6% |
| Landed Weight | 3,679,359 | 3,623,045 | 3,397,782 |
| % Change | 1.6% | 6.6% | 0.7% |
| Cargo Tons | 23,626 | 26,242 | 26,468 |
| % Change | (10.0)% | (0.9)% | 25.8% |
| Parking Transactions | 816,234 | 832,519 | 792,137 |
| % Change | (2.0)% | 5.1% | 2.7% |

Palm Beach County, Florida Department of Airports

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

Financial Operations Highlights

Financial impacts are highlighted as follows:

Changes Between 2016 and 2015

- Compared to the prior year, operating revenues increased 3% to \$65.3 million (an increase of \$2.1 million). Airline revenues from landing fees and terminal rents increased by \$400,000 mainly due to increased non-signatory airlines. Parking revenues increase by \$715,000 (4%) due to increased dwell time in lots, and growth in long-term and economy parking components. Additionally, off-airport parking competitors ceased operations over the prior year which helped the PBIA customer demand. Fuel flowage fees from Fixed Base Operators increased by \$400,000 (reported in Other concessions). Ground transportation revenues from taxis and other transportation companies increased by about \$150,000 due to increased usage of Uber and other similar services. This may also explain the decline of car rental revenues, which decreased by \$227,000.
- Compared to the prior year, operating expenses increased by 5% or \$2.1 million. Maintenance costs increased by 9% for a total cost of \$7.2 million, largely for the upkeep of terminal systems and structures. Security and fire rescue services increased by 3% and 8%, respectively, totaling an aggregate \$13.4 million for fiscal year 2016. Utilities costs decreased through improved efficiency and better rate profiles.
- Interest expense from Revenue Bonds decreased by 11% for a total cost of \$3.9 million. Additional savings were made in 2016 due to the issuance of the Series 2016 Revenue Refunding Bonds which eliminated the 2006 A Series Bonds at significant interest rate savings.

Changes Between 2015 and 2014

- Compared to the prior year, operating revenues decreased 7.8% to \$63.2 million (a decline of \$5.4 million). Airline revenues declined due to decreased costs, specifically annual debt service requirements as discussed below. The County's Airline agreement bases charges to airlines on costs to operate the terminal and airfield facilities. Airline terminal rents decreased by 50% totaling \$7.6 million and landing fees decreased by 21% totaling \$4.4 million in 2015 as a result of reduced operating costs under the cost sharing agreements. Other operating revenues increased including parking, up 11%, totaling \$17.4 million, car rental concession revenue up 6%, totaling \$11.6 million, and non-airline facility rentals up 5%, totaling \$11.7 million. These other operating revenue increases partially offset the terminal rent and landing fee decreases.
- Compared to the prior year, operating expenses increased by 5% or \$2 million. General/administrative costs increased 7%, mainly due to increases in advertising expenses related to marketing PBIA and promoting flights. Maintenance expenses increased 6%, primarily to the upkeep of buildings, including the PBIA terminal, and associated systems within those structures.
- Debt service, as calculated by sinking fund requirements during the year, decreased from \$17.6 million to \$6.8 million. The decrease is due to the Series 2002 Revenue Bonds maturing October 1, 2015. This resulted in a \$.7 million decrease in interest expense and a \$10 million decrease in the restricted net position for debt service.

Palm Beach County, Florida Department of Airports

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

The change in net position for fiscal year 2016 totaled \$22.1 million; the change in net position for fiscal year 2015 totaled \$34.5 million.

| | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|
| Operating revenues | \$ 65,298,149 | \$ 63,163,758 | \$ 68,592,462 |
| Operating expenses | 44,471,254 | 42,406,403 | 40,349,051 |
| Operating income before depreciation and amortization | 20,826,895 | 20,757,355 | 28,243,411 |
| Depreciation and amortization | 29,480,247 | 27,443,447 | 28,471,031 |
| Operating loss | (8,653,352) | (6,686,092) | (227,620) |
| Other nonoperating income and expenses, net, including capital contributions and transfers | 30,710,465 | 41,206,548 | 23,648,363 |
| Change in net position | \$ 22,057,113 | \$ 34,520,456 | \$ 23,420,743 |

Financial Position Summary

Net position may serve over time as a useful indicator of the Department's financial position. The Department's assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$466 million at September 30, 2016 and \$444 million at September 30, 2015. A condensed summary of the Department's net position at September 30, is shown below:

| | 2016 | 2015 | 2014* |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| Assets | | | |
| Current and other assets | \$ 167,481,363 | \$ 178,757,802 | \$ 158,907,589 |
| Capital assets | 408,957,705 | 383,053,250 | 364,528,857 |
| Total assets | 576,439,068 | 561,811,052 | 523,436,446 |
| Deferred outflows of resources | 5,152,621 | 2,010,597 | 502,095 |
| Liabilities | | | |
| Current and other liabilities | 22,510,519 | 27,834,732 | 21,450,618 |
| Long-term debt outstanding | 91,501,752 | 89,815,147 | 90,377,106 |
| Total liabilities | 114,012,271 | 117,649,879 | 111,827,724 |
| Deferred inflows of resources | 1,640,505 | 2,289,970 | 2,749,473 |
| Net Position | | | |
| Net investment in capital assets | 325,142,946 | 296,790,283 | 265,752,985 |
| Restricted | 66,177,601 | 73,715,348 | 79,567,689 |
| Unrestricted | 74,618,366 | 73,376,169 | 64,040,670 |
| Total net position | \$ 465,938,913 | \$ 443,881,800 | \$ 409,361,344 |

*Certain amounts in the 2014 column were restated as part of implementation of GASB Statements 68 and 71. Net position as of October 1, 2013, was restated and reduced by \$5.7 million as a result.

Palm Beach County, Florida Department of Airports

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

A significant portion of the Department's net position each year (70% at September 30, 2016) 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 (14% at September 30, 2016) 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, 2016) may be used to meet any of the Department's ongoing obligations.

Financial Position, 2016 Versus 2015

Total assets increased by \$14.6 million in 2016 due to the construction of new assets. Unrestricted cash and cash equivalents increased by \$3.3 million; liabilities decreased by \$3.6 million. Total net position increased by \$22 million over the prior year.

Financial Position, 2015 Versus 2014

Total assets increased by \$38.4 million in 2015 due to the construction of new assets. Unrestricted cash and cash equivalents increased by \$9.9 million; liabilities increased by \$5.8 million. Total net position increased by \$34.5 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 (PBIA). The Agreement serves as the basis for calculating landing fees, terminal rental rates, baggage and gate equipment charges, and apron fees taking into account costs associated with the operation, maintenance and debt service of the airfield and terminal. Landed weight and rentable square footage serve as the units for landing fees and terminal rents, respectively. Under the current Agreement, airfield revenues are credited towards the Airline's net requirement (residual rate setting methodology.) The terminal cost center expenditure requirements are wholly payable by airline rents (compensatory rate setting methodology.) The Department also has the ability under the Agreement to adjust airline rates and charges at any time throughout the year if the Department determines a rate adjustment is required resulting in an increase of 10% or more. This insures the Department is in a position to meet all financial requirements of the Bond resolution regarding debt service coverage requirements.

The Department, effective October 1, 2014, is operating under a five-year agreement covering fiscal years 2015 through 2019. All signatory airlines under the prior agreement, which terminated September 30, 2014, have signed on to the five-year agreement. Signatory Airlines, as of September 30, 2016 include: Delta, JetBlue, American, Southwest, United and BahamasAir (new signatory during fiscal year 2016). Rights and obligations of the new five-year agreement did not change materially from the prior agreement, however, commercial airline rates and charges did have material changes in the method of calculation, application and amount of those fees. Because the Department's debt service decreased significantly effective fiscal year 2015, certain charges decreased and as a result, some individual rates were eliminated such as commercial airline apron fees and loading bridge charges. The Department has

Palm Beach County, Florida Department of Airports

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

achieved a significantly lower Cost Per Enplanement metric going forward. The new agreement still contains revenue sharing with the signatory airlines, however, revenue sharing will be accomplished by direct payout rather than reducing forward rates. The table below shows landing fees and terminal rates net of revenue sharing distributions for fiscal years 2015, 2016 and 2017.

| | 2017 | | | |
|--|-----------|----------|----------|----------|
| | Projected | 2016 | 2015 | 2014 |
| Landing fee (per 1,000 lbs MGLW) | \$ 1.040 | \$ 0.960 | \$ 0.930 | \$ 1.393 |
| Signatory Airline Annual terminal rate (per square foot) | 46.95 | 44.36 | 47.65 | 63.93 |
| Revenue from airlines (in thousands) | 14,816 | 12,374 | 12,105 | 20,583 |
| Baggage Handling System Fee per enplanement | 0.71 | 0.81 | n/a | n/a |
| Enplanements (in thousands) | 3,246 | 3,172 | 3,090 | 2,914 |
| Airline cost per enplanement (passenger airlines) | 4.56 | 3.90 | 3.92 | 7.06 |
| Landed weight of commercial aircraft | 3,751 | 3,679 | 3,623 | 3,398 |
| Signatory airline terminal leasehold area (sq. ft.) | 152,521 | 151,005 | 155,269 | 196,918 |

Total airline revenues are projected to increase in fiscal year 2017 primarily as a result of the baggage handling system (BHS) fee, which was initiated in July 2016 to recover the cost to operate and maintain the in-line baggage handling system (checked baggage). The BHS fee is charged to airlines monthly based on a pro rata share of enplaned passengers.

Factors Impacting the Airline sector and PBI Traffic

At PBI, fiscal year 2016 total passenger traffic was up 2.6% compared to fiscal year 2015 with 6.3 million total passengers for the year. Growth at PBI has been a function of airline capacity and economic conditions. Fiscal year 2016 seat capacity from all airlines was up by 3.5% over fiscal year 2015. This growth comes on top of significant growth in 2015 where passenger traffic grew by almost 6% due to strong demand and increased commercial flight operations. Continued increases in employment and general economic conditions, coupled with low fuel prices will serve the travel industry well in the coming months. Airlines and travel industries continue to do well in low price fuel environment and will likely continue to grow passenger traffic. Management does not anticipate any significant changes in traffic during fiscal year 2017 and is projecting a modest increase for passenger traffic in the range of 2.3%.

Westjet Airlines commenced service at PBI during fiscal year 2016, adding to flights to the PBI-Toronto route which is also served by Air Canada. Frontier Airlines, which entered PBI in 2015, increased flight operations to Denver, CO and Trenton, NJ. Sun County announced new non-stop service to Minneapolis, MN which commenced December of 2016. Delta also commenced non-stop service to Minneapolis at the same time. Allegiant ceased operations at PBI September 2016 which operated one route four times per week on average.

Top origination and destination markets in 2016 PBI were:

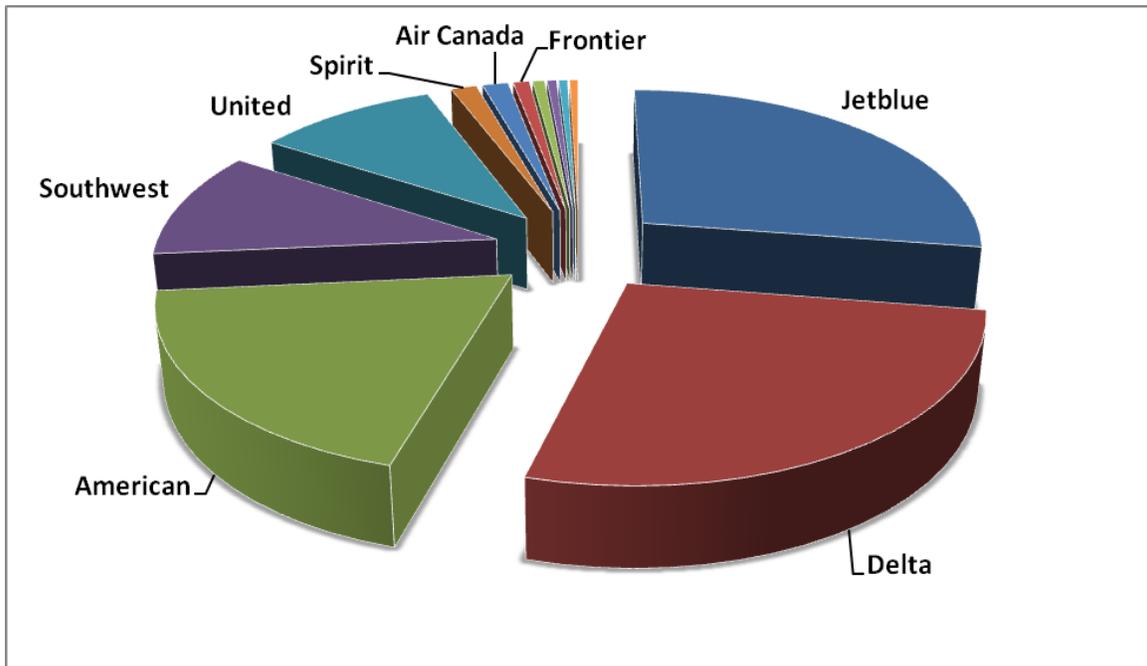
1. LaGuardia, NY
2. Newark, NJ
3. Boston, MA
4. JFK, NY
5. Atlanta, GA
6. Philadelphia, PA
7. White Plains, NY
8. Washington National, DC
9. Islip, NY
10. Chicago O'Hare, IL

Palm Beach County, Florida Department of Airports

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

Airline Market Share and Passenger Information

Total passenger traffic (enplaned plus deplaned) is presented below for fiscal year 2016 by airline, showing market share at PBIA and comparisons to fiscal year 2015:



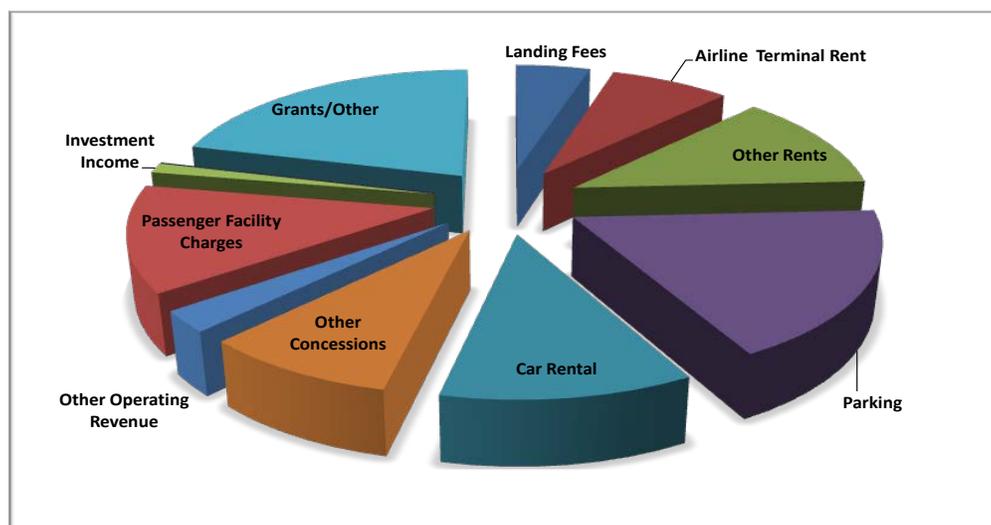
| | 2016 | Change From 2015 | % Change From 2015 |
|----------------|------------------|---------------------|-----------------------|
| JetBlue | 1,737,072 | 138,227 | 9% |
| Delta | 1,699,845 | 48,341 | 3% |
| American | 1,217,497 | (71,620) | (6)% |
| Southwest | 668,466 | (12,960) | (2)% |
| United | 635,292 | 11,700 | 2% |
| Spirit | 90,256 | (2,519) | (3)% |
| Air Canada | 89,904 | 19,437 | 28% |
| Frontier | 56,517 | (6,568) | 100% |
| Allegiant | 41,531 | 5,766 | 16% |
| Silver Airways | 32,785 | (2,236) | (6)% |
| BahamasAir | 30,704 | 4,147 | 16% |
| Others | 29,423 | 27,654 | 6% |
| Total | 6,329,292 | 159,369 | 2.6% |

Palm Beach County, Florida Department of Airports

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

Revenues

The following chart and table summarize revenues for the year ended September 30, 2016:



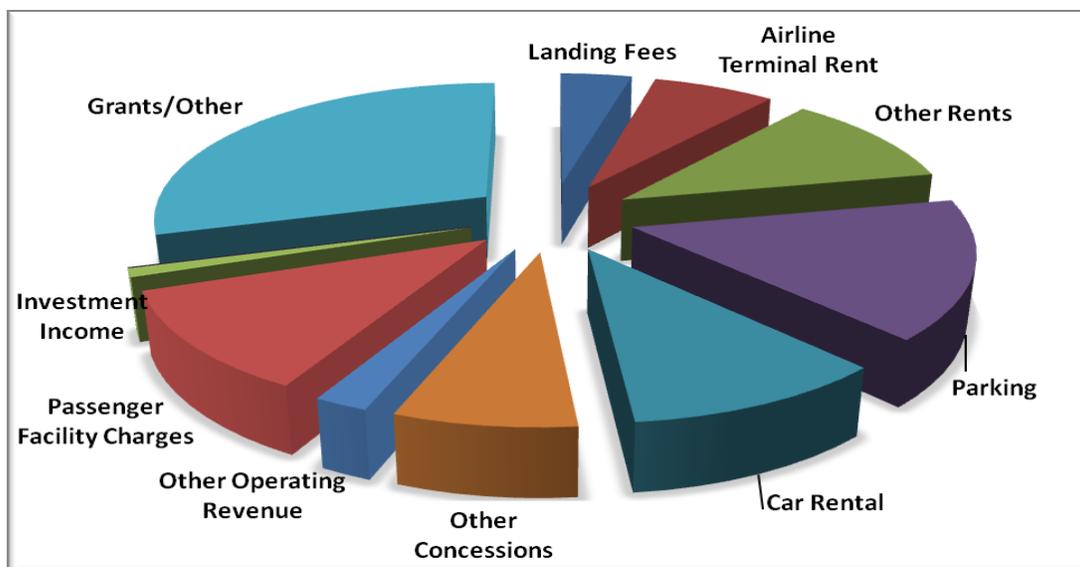
| | 2016 | Percent of Total | Change From 2015 | % Change From 2015 |
|---------------------------------|-----------------------|------------------|-----------------------|--------------------|
| Operating Revenues | | | | |
| Landing fees | \$ 4,767,559 | 5% | \$ 342,835 | 8% |
| Airline terminal rent | 7,659,921 | 8% | 73,877 | 1% |
| Other rental revenue | 11,879,853 | 12% | 118,529 | 1% |
| Parking | 18,082,272 | 18% | 714,993 | 4% |
| Car rental concessions | 11,406,276 | 11% | (227,914) | (2)% |
| Other concessions | 8,884,370 | 9% | 875,878 | 11% |
| Other operating revenue | 2,617,898 | 2% | 236,193 | 10% |
| Total operating revenues | 65,298,149 | 65% | 2,134,391 | 3% |
| Other Sources | | | | |
| Passenger facility charges | 12,934,786 | 13% | 332,544 | 3% |
| Investment income | 1,200,485 | 1% | 134,232 | 13% |
| Grants and other items | 21,115,848 | 21% | (11,022,756) | (34)% |
| Total other sources | 35,251,119 | 35% | (10,555,980) | (23)% |
| Total revenues | \$ 100,549,268 | 100% | \$ (8,421,589) | (8)% |

Airline terminal rents totaling \$7.7 million increased by 1% due to the implementation of BHS (Baggage Handling System) fees. Landing fees totaling \$4.8 million increased by 8% due to increased operations by non-signatory carriers. Parking revenue totaling \$18.1 million increased 4%. Car rental concession revenue totaling \$11.4 million decreased by 2% while other concessions revenue totaling \$8.9 million increased by 11%. Other concessions consist of various sources including taxi/transportation companies, fuel flowage fees and terminal concessions.

Palm Beach County, Florida Department of Airports

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

The following chart and table summarize revenues for the year ended September 30, 2015:



| | 2015 | Percent of Total | Change From 2014 | % Change From 2014 |
|---------------------------------|-----------------------|------------------|----------------------|--------------------|
| Operating Revenues | | | | |
| Landing fees | \$ 4,424,724 | 4% | \$ (1,203,071) | (21)% |
| Airline terminal rent | 7,586,044 | 7% | (7,602,719) | (50)% |
| Other rental revenue | 11,761,324 | 11% | 600,808 | 5% |
| Parking | 17,367,279 | 16% | 1,725,963 | 11% |
| Car rental concessions | 11,634,190 | 11% | 668,752 | 6% |
| Other concessions | 8,008,492 | 7% | 865,041 | 12% |
| Other operating revenue | 2,381,705 | 2% | (483,478) | (17)% |
| Total operating revenues | 63,163,758 | 58% | (5,428,704) | (8)% |
| Other Sources | | | | |
| Passenger facility charges | 12,602,242 | 12% | 678,581 | 6% |
| Investment income | 1,066,253 | 1% | 150,469 | 16% |
| Contributions of assets | - | 0% | (7,000,000) | (100)% |
| Grants and other items | 32,138,604 | 29% | 23,197,028 | 259% |
| Total other sources | 45,807,099 | 42% | 17,026,078 | 59% |
| Total revenues | \$ 108,970,857 | 100% | \$ 11,597,374 | 12% |

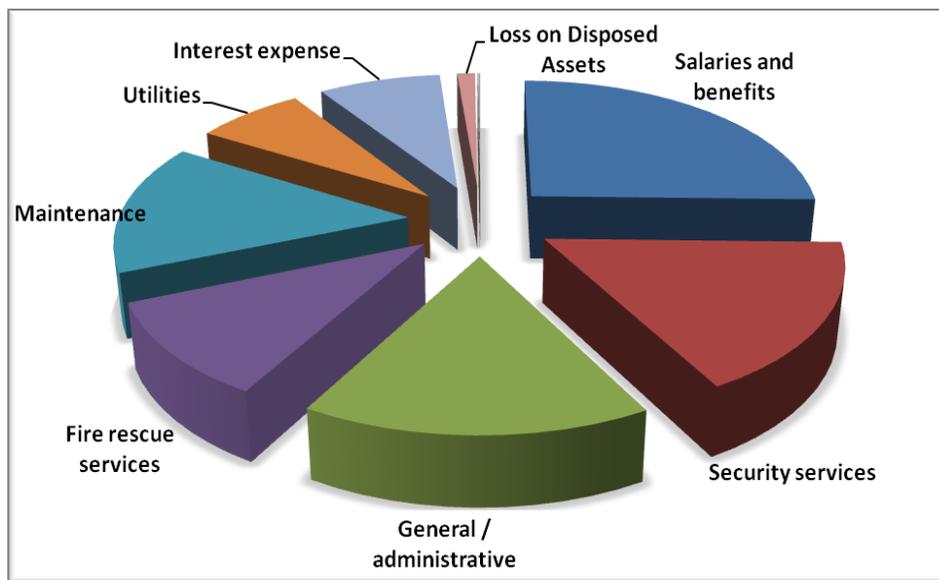
Airline revenues declined due to decreased costs, specifically annual debt service requirements. It is important to note that the rate setting methodology for airline terminal rents and landing fees is based on the cost to operate the terminal and airfield facilities. Other revenues increased including parking, up 11% totaling \$17.4 million, car rental concession revenue up 6%, totaling \$11.6 million and non-airline facility rentals up 5%, totaling \$11.7 million.

Palm Beach County, Florida Department of Airports

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

Expenses

The following chart and table summarize expenses for the fiscal year ended September 30, 2016:



| | 2016 | Percent of Total | Change From 2015 | % Change From 2015 |
|---|----------------------|------------------|---------------------|--------------------|
| Operating Expenses | | | | |
| Salaries and benefits | \$ 12,440,170 | 16% | \$ 1,153,921 | 10% |
| Security services | 8,212,030 | 10% | 236,275 | 3% |
| General/administrative | 7,912,431 | 10% | (15,988) | (0)% |
| Fire rescue services | 5,203,692 | 7% | 366,810 | 8% |
| Maintenance | 7,234,147 | 9% | 609,927 | 9% |
| Utilities | 3,468,784 | 4% | (286,094) | (8)% |
| Total operating expenses | 44,471,254 | 56% | 2,064,851 | 5% |
| Depreciation and Amortization | 29,480,247 | 38% | 2,036,800 | 7% |
| Nonoperating Expenses: | | | | |
| Interest expense | 3,930,264 | 5% | (483,502) | (11)% |
| Write off of disposal of capital assets | 576,694 | 1% | 433,486 | 100% |
| Bond amortization | (23,209) | 0% | (10,304) | (80)% |
| Transfers to Other County Funds | 56,905 | 0% | 421 | 1% |
| Total non-operating expenses | 4,540,654 | 6% | (59,899) | (1)% |
| Total expenses | \$ 78,492,155 | 100% | \$ 4,041,752 | 5% |

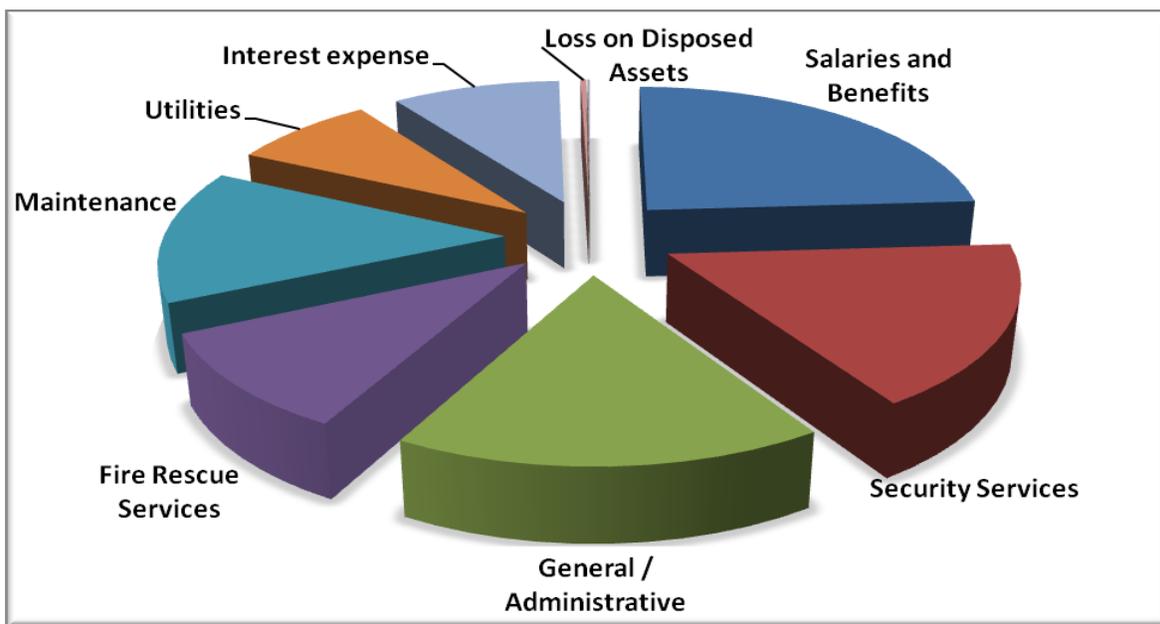
- Operating expenses increased 5% overall. Salary and benefits increased 10% due to additional personnel and increased pension related liability of the FRS plan. Maintenance costs increased by 9% for a total cost of \$7.2 million, largely for the upkeep of terminal systems and structures. Security and fire rescue services increased by 3% and 8%, respectively, totaling an aggregate \$13.4 million for fiscal year 2016. Utilities costs decreased through improved efficiency and better rate profiles.

Palm Beach County, Florida Department of Airports

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

Expenses (Continued)

The following chart and table summarize expenses for the fiscal year ended September 30, 2015:



| | 2015 | Percent of Total | Change From 2014 | % Change From 2014 |
|---|----------------------|------------------|---------------------|--------------------|
| Operating Expenses | | | | |
| Salaries and benefits | \$ 11,286,249 | 15% | \$ 849,296 | 8% |
| Security services | 7,975,755 | 11% | 119,787 | 2% |
| General/administrative | 7,928,419 | 11% | 546,099 | 7% |
| Fire rescue services | 4,836,882 | 6% | 132,302 | 3% |
| Maintenance | 6,624,220 | 9% | 402,394 | 6% |
| Utilities | 3,754,878 | 5% | 7,474 | 0% |
| Total operating expenses | 42,406,403 | 57% | 2,057,352 | 5% |
| Depreciation and Amortization | 27,443,447 | 37% | (1,027,584) | (4)% |
| Nonoperating Expenses: | | | | |
| Interest expense | 4,413,766 | 6% | (718,757) | (14)% |
| Write off of disposal of capital assets | 143,208 | 0% | (718,757) | (14)% |
| Bond amortization | (12,905) | 0% | 19,280 | 60% |
| Transfers to Other County Funds | 56,484 | 0% | (836) | (1)% |
| Total non-operating expenses | 4,600,553 | 6% | (1,419,070) | (14)% |
| Total expenses | \$ 74,450,403 | 100% | \$ (389,302) | (1)% |

Operating expenses increased 5% overall. Salaries and benefits increased due to additional staff and increased wages/benefit costs for existing employees. General/administrative expenses increased by 7% primarily due to increased spending for advertising.

Palm Beach County, Florida Department of Airports

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

Summary of Cash Flow Activities

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

| | 2016 | 2015 | 2014 |
|---|-----------------------|-----------------------|-----------------------|
| Cash flows provided by operating activities | \$ 20,861,198 | \$ 13,781,516 | \$ 27,733,171 |
| Cash flows provided by investing activities | 1,200,483 | 1,140,564 | 1,058,235 |
| Cash flows provided by noncapital financing activities | 251,238 | 270,825 | 345,575 |
| Cash flows used in capital and related financing activities | (19,355,010) | (15,814,135) | (14,271,280) |
| Net change in cash and cash equivalents | 2,957,909 | (621,230) | 14,865,701 |
| Cash and cash equivalents | | | |
| Beginning of year | 147,329,294 | 147,950,524 | 133,084,823 |
| End of year | <u>\$ 150,287,203</u> | <u>\$ 147,329,294</u> | <u>\$ 147,950,524</u> |

Capital Acquisitions and Construction Activities

During fiscal year 2016, the Department expended \$56 million on capital activities. Completed projects during fiscal year 2016 totaling \$90.2 million were transferred from construction-in-progress to their respective capital accounts. The major projects completed fiscal year 2016, are as follows:

| | |
|--|-----------------|
| Baggage Handling System | \$48.08 million |
| Land Acquisition | 6.98 million |
| Taxiway Rehabilitation | 5.86 million |
| Terminal Restroom Renovation and expansion | 4.85 million |
| Lantana Itinerant Apron | 4.85 million |

During fiscal year 2015, the Department expended \$45.4 million on capital activities, which is a substantial increase over prior years due to the ongoing construction of an in line baggage system, which was substantially completed in fiscal year 2016 at a total cost of \$48 million. Completed projects during fiscal year 2015 totaling \$10.1 million were transferred from construction-in-progress to their respective capital accounts. The major projects completed fiscal year 2015, are as follows:

| | |
|----------------------------------|----------------|
| North County Airport wetlands | \$7.01 million |
| General Aviation Security System | 1.21 million |
| Pahokee Airfield Lighting | 330,000 |
| Terminal Generator | 224,000 |

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

Palm Beach County, Florida Department of Airports

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

Long-Term Debt

The Department had outstanding long-term debt of \$82 million and \$83.8 million as of September 30, 2016 and 2015, 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 2016:

| | Balance at October 1, 2015 | Additions | Reductions | Balance at September 30, 2016 | Due Within One Year |
|-------------------------|----------------------------------|----------------------|----------------------|-------------------------------------|---------------------------|
| Revenue Bonds: | | | | | |
| Series 2006A | \$ 69,080,000 | \$ - | \$ 69,080,000 | \$ - | \$ - |
| Series 2006B | 16,855,000 | - | 2,425,000 | 14,430,000 | 2,565,000 |
| Series 2016 | - | 57,070,000 | - | 57,070,000 | - |
| | <u>\$ 85,935,000</u> | <u>\$ 57,070,000</u> | <u>\$ 71,505,000</u> | <u>71,500,000</u> | <u>\$ 2,565,000</u> |
| Less current maturities | | | | <u>2,565,000</u> | |
| Long-term portion | | | | 68,935,000 | |
| Add unamortized premium | | | | 13,127,311 | |
| Total | | | | <u>\$ 82,062,311</u> | |

The following table reflects the debt activities that occurred during fiscal year 2015:

| | Balance at October 1, 2014 | Additions | Reductions | Balance at September 30, 2015 | Due Within One Year |
|-------------------------|----------------------------------|-------------|----------------------|-------------------------------------|---------------------------|
| Revenue Bonds | | | | | |
| Series 2006A | \$ 69,080,000 | \$ - | \$ - | \$ 69,080,000 | \$ - |
| Series 2006B | 16,855,000 | - | - | 16,855,000 | 2,425,000 |
| Series 2002 | 12,500,000 | - | 12,500,000 | - | - |
| | <u>\$ 98,435,000</u> | <u>\$ -</u> | <u>\$ 12,500,000</u> | <u>85,935,000</u> | <u>\$ 2,425,000</u> |
| Less current maturities | | | | <u>2,425,000</u> | |
| Long-term portion | | | | 83,510,000 | |
| Add unamortized premium | | | | 327,967 | |
| Total | | | | <u>\$ 83,837,967</u> | |

The County, on behalf of the Department, issued \$57,070,000 of Airport Revenue Refunding Bonds, Series 2016 during fiscal year 2016 which refunded Series 2006A in its entirety. The 2016 Series are 20 year bonds which mature on October 1, 2036. The refunding resulted in an accounting loss of \$823,000 which will be amortized over the life of Series 2016, however, the refunding realized a net present value economic savings of \$15.6 million. Present value savings are generated due to significantly lower interest rates achieved in the 2016 Series vs the 2006A Series. The "all-in true interest costs" as calculated for the 2016 Series compared to the 2006A series, is 2.94% and 5.18%, respectively.

See Note 5, Revenue Bonds and Loan Payable, in the notes to the financial statements for additional information.

Palm Beach County, Florida Department of Airports

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

Credit Ratings

The Department's credit ratings currently stand at: Standard and Poor's A+, Fitch A+ and Moody's Investors Service A1; all agencies reported a stable outlook for the Department. All three credit rating agencies upgraded the Department's credit rating during fiscal year 2016. Generally, the rating agencies cited the Department's strengths to be: improved debt service coverage, robust cash balances, declining leverage, low cost per enplanement, diversified air carrier mix and a diversified revenue stream. Rating agencies noted a mitigating weakness in the form of competition from other area airports. Potential investors are urged to read the full reports issued by the respective rating agencies.

Passenger Facility Charges

The Department, as of September 30, 2016 and 2015, had a total collected balance of \$231,292,961 and \$218,449,833, respectively, in Passenger Facility Charges (PFC) Revenues, including interest on PFC cash balances, since the inception of the program in April 1, 1994. The Department has capital expenditures from PFC sources totaling \$184,816,071 and \$163,748,086, respectively, over the same time period. As of September 30, 2016 and 2015, the Department was authorized to collect \$271,834,587 in PFC revenues. The Department is authorized to collect \$4.50 per enplaned passenger per FAA policy.

Economic Factors, Fiscal Year 2017 Budget, and Airline Rates

- 2.4 million people live in the Palm Beach International Airport catchment area which includes Palm Beach, Martin, St. Lucie, and Indian River counties, as well as a small portion of Broward County. Population growth in this area is expected to grow 8% by 2020. (Source: Woods and Poole, 2015 estimate).
- Palm Beach County enjoys a comparably high per capita personal income (PCPI), estimated at \$68,743, the fourth highest in Florida. The Palm Beach County PCPI is 155% of the state average (\$44,429) and 143% of the national average (\$48,429). (Source: Palm Beach County Business Development Board, 2015).
- Palm Beach County Tourism statistics have shown positive returns for the last few years. In 2015, the County was visited by 6.8 million tourists, a 10% visitation increase over 2014. The County expects tourism visitation to increase going forward with hotel occupancy and revenue statistics to show significant increases as well. Palm Beach County statistics have generally exceeded the Florida and national averages in past years. More than 1,000 new hotel rooms opened in 2016 growing room inventory by 6.5%. Additional room inventory is scheduled to be added in the 2017 to 2018 time period. Particularly important is the completion of a convention center located Hilton Hotel in late 2015 which boosted convention traffic to the area. (Sources: Palm Beach County Convention and Visitors Bureau Press release dated February 20, 2016 and 2014/2015 Marketing and Sales Plan).
- The Department's fiscal year 2017 operating expense budget totals \$49.9 million, not including interfund transfers and reserves, which represents an increase of 6% from the prior year budget. The Department expects actual expenditures will be somewhat less than the budgeted amount with expected expenditures to be within the range of \$46 million to \$47 million. Operating revenues are budgeted at \$66.9 million for fiscal year 2017, a 2.4% increase over fiscal year 2016 actual operating revenues.
- The Department completed the in-line baggage handling system in 2016 at a cost of \$48 million. This project was largely funded with PFC collections and Homeland Security grants. While the enhanced baggage system will provide additional utility to users, system complexity will drive additional operations and maintenance (O & M) cost. The Department estimates annualized O & M costs from the system to be approximately \$2 million per year in the early phases of deployment as the system will be adjusted to enhance performance. This cost is recovered from airlines on a pro rated passenger fee of \$.71 per enplanement in fiscal year 2017.

Palm Beach County, Florida Department of Airports

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

- The fiscal year 2016 terminal rates averaged \$44.36 per square foot; landing fees were \$.96 per 1,000 lbs. of landed weight. The Fiscal year 2015 terminal rates averaged \$47.67 per square foot; landing fees were \$.93 per 1,000 lbs. of landed weight. Airline cost per enplanement in fiscal years 2016 and 2015 were \$3.90 and 3.92, respectively. Airline cost per enplanement for fiscal year 2017 is expected be approximately \$4.56 partly due to the baggage handling system fee introduced in late 2016 to recover the cost of operation and maintenance of the automated in-line baggage handling system. Rates and cost per enplanement are stated net of estimated revenue sharing payouts to signatory airlines.
- Subsequent to September 30, 2016, Donald Trump became the 45th President of the United States. The President maintains a residence in Palm Beach County, named Mar-a-Lago, which has been dubbed the "Winter Whitehouse", inferring regular Presidential visits. Enhanced security measures restricting flight paths and certain types of flight operations will be in effect when the President is in residence at Mar-a-Lago. Management believes there will be no financial impact relative to commercial flights in and out of PBIA even when the President is in County. General Aviation flights will face more restrictions, especially aircraft based at the Department's Palm Beach County Park Airport in Lantana while the President is in County. Primary impacts will be to flight training activities and small general aviation businesses at Lantana which could disrupt revenue to the Department. The Lantana Airport accounted for approximately \$750,000 of revenue to the Department in fiscal year 2016, representing less than 1% of total revenue. Management cannot predict the full impact at this time because the frequency of the President's travel to the local area is not known, however management believes the overall financial impact to the Department will likely not be significant.

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, Florida Department of Airports

Statements of Net Position
September 30, 2016 and 2015

| Assets | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Current Assets | | |
| Pooled cash and cash equivalents | \$ 78,443,799 | \$ 75,099,676 |
| Nonpooled cash and cash equivalents | 1,100 | 1,100 |
| Restricted pooled cash and cash equivalents | 261,295 | 263,737 |
| Restricted cash with fiscal agent | 3,505,461 | 4,631,884 |
| Accounts receivable, less allowance for doubtful accounts of \$268,938 and \$275,530 in 2016 and 2015, respectively | 3,021,048 | 2,587,033 |
| Government grants receivable | 7,222,465 | 20,891,123 |
| Due from other funds | - | 107,181 |
| Due from other governments | 24,000 | 45,920 |
| Inventories | 1,578,337 | 1,454,067 |
| Other current assets | 3,483,425 | 4,683,285 |
| Total current assets | 97,540,930 | 109,765,006 |
| Noncurrent Assets | | |
| Restricted assets: | | |
| Pooled cash and cash equivalents | \$ 15,368,976 | \$ 14,774,799 |
| Nonpooled cash and cash equivalents | 52,706,572 | 52,558,098 |
| Accounts receivable | 1,847,393 | 1,654,531 |
| Total noncurrent restricted assets | 69,922,941 | 68,987,428 |
| Capital assets: | | |
| Land | 115,596,203 | 108,129,920 |
| Construction in progress | 15,095,971 | 51,392,749 |
| Depreciable capital assets, net of accumulated depreciation | 278,265,531 | 223,530,581 |
| Total capital assets | 408,957,705 | 383,053,250 |
| Other noncurrent assets: | | |
| Net OPEB Asset | 17,492 | 5,368 |
| Total other noncurrent assets | 17,492 | 5,368 |
| Total noncurrent assets | \$ 478,898,138 | \$ 452,046,046 |
| Total assets | \$ 576,439,068 | \$ 561,811,052 |
| Deferred outflows of resources-pension related | \$ 4,340,069 | \$ 2,010,597 |
| Deferred outflow-loss on revenue bond refunding | 812,552 | - |
| Total Deferred Outflows of Resources | \$ 5,152,621 | \$ 2,010,597 |

See Notes to Financial Statements.

Palm Beach County, Florida Department of Airports

Statements of Net Position (Continued)

September 30, 2016 and 2015

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts and contracts payable | \$ 16,446,914 | \$ 20,929,162 |
| Compensated absences payable | 83,928 | 74,035 |
| Unearned revenue | 1,379,418 | 1,160,708 |
| Due to other funds | 153,892 | 115,472 |
| Due to other governments | 89,899 | 93,918 |
| Due to Component Unit | 905 | 757 |
| Other current liabilities | 588,911 | 565,059 |
| Total current liabilities | 18,743,867 | 22,939,111 |
| Current Liabilities Payable From Restricted Assets | | |
| Security deposits | 261,295 | 263,739 |
| Interest payable on revenue bonds | 940,357 | 2,206,882 |
| Current maturities of revenue bonds | 2,565,000 | 2,425,000 |
| Total current liabilities payable from restricted assets | 3,766,652 | 4,895,621 |
| Long-Term Liabilities | | |
| Compensated absences payable | 1,116,249 | 1,049,704 |
| Net pension liability | 8,323,192 | 4,927,476 |
| Revenue bonds payable (less current maturities) | 82,062,311 | 83,837,967 |
| Total long-term liabilities | 91,501,752 | 89,815,147 |
| Total liabilities | \$ 114,012,271 | \$ 117,649,879 |
| Deferred inflows of resources-pension related | 1,640,505 | 2,289,970 |
| Net Position | | |
| Net investment in capital assets | \$ 325,142,946 | \$ 296,790,283 |
| Restricted: | | |
| Passenger facility charges | 48,349,550 | 56,384,514 |
| Debt service | 2,563,739 | 2,728,854 |
| Renewal and replacement | 3,385,136 | 2,777,174 |
| Operation and maintenance | 7,883,648 | 7,502,828 |
| Capital outlay | 3,995,528 | 4,321,978 |
| | 66,177,601 | 73,715,348 |
| Unrestricted | 74,618,366 | 73,376,169 |
| Total net position | \$ 465,938,913 | \$ 443,881,800 |

Palm Beach County, Florida Department of Airports

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015**

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Operating Revenues | | |
| Rentals | \$ 19,539,774 | \$ 19,347,368 |
| Concessions | 38,372,918 | 37,009,961 |
| Landing fees | 4,767,559 | 4,424,724 |
| Other | 2,617,898 | 2,381,705 |
| Total operating revenues | 65,298,149 | 63,163,758 |
| Operating Expenses | | |
| Employee compensation and benefits | 12,440,170 | 11,286,249 |
| General and administrative | 7,912,431 | 7,928,419 |
| Maintenance | 7,234,147 | 6,624,220 |
| Contracted security services | 8,212,030 | 7,975,755 |
| Contracted fire-rescue services | 5,203,692 | 4,836,882 |
| Utilities | 3,468,784 | 3,754,878 |
| Total operating expenses before depreciation and amortization | 44,471,254 | 42,406,403 |
| Operating Income Before Depreciation and Amortization | 20,826,895 | 20,757,355 |
| Depreciation and Amortization | 29,480,247 | 27,443,447 |
| Operating loss | (8,653,352) | (6,686,092) |
| Nonoperating Revenues (Expenses) | | |
| Investment income | 1,200,486 | 1,066,253 |
| Passenger facility charges | 12,934,786 | 12,602,242 |
| Interest expense | (3,930,264) | (4,413,766) |
| Gain (loss) on disposal of capital assets | (547,618) | (97,442) |
| Amortization of loss on early extinguishment of debt | (10,896) | - |
| Bond issue costs | (469,888) | - |
| Amortization of revenue bond costs | 503,992 | 12,905 |
| Other revenues (expenses) | 308,139 | 327,311 |
| Total nonoperating revenues (expenses), net | 9,988,737 | 9,497,503 |
| Income before contributions and transfers | 1,335,385 | 2,811,411 |
| Airport Improvement Capital Grants | 20,778,633 | 31,765,529 |
| Transfers to Other County Funds | (56,905) | (56,484) |
| Change in net position | 22,057,113 | 34,520,456 |
| Net Position at Beginning of Year | 443,881,800 | 409,361,344 |
| Net Position at End of Year | \$ 465,938,913 | \$ 443,881,800 |

See Notes to Financial Statements.

Palm Beach County, Florida Department of Airports

Statements of Cash Flows

Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Cash Flows From Operating Activities | | |
| Cash received from customers | \$ 66,094,272 | \$ 60,596,154 |
| Cash payments to vendors for goods and services | (17,194,388) | (18,670,069) |
| Cash payments to employees for services | (12,025,197) | (11,419,626) |
| Cash payments to other funds | (16,013,489) | (16,724,943) |
| Net cash provided by operating activities | 20,861,198 | 13,781,516 |
| Cash Flows From Noncapital Financing Activities | | |
| Transfer to other county funds | (56,905) | (56,484) |
| Operating grants and other | 308,143 | 327,309 |
| Net cash provided by noncapital financing activities | 251,238 | 270,825 |
| Cash Flows From Capital and Related Financing Activities | | |
| Acquisition and construction of capital assets | (58,972,378) | (25,667,241) |
| Proceeds from Revenue Refunding Bonds Issued | 70,373,336 | - |
| Proceeds from sale of capital assets | 29,075 | 45,766 |
| Principal repayment on revenue bonds | (2,425,000) | (12,500,000) |
| Passenger facility charges received | 12,744,891 | 12,754,835 |
| Receipt of capital grants and reimbursements | 34,465,191 | 14,325,648 |
| Bond Issue costs paid | (469,888) | - |
| Payments to Trustee for bond refunding | (69,903,448) | - |
| Interest and fiscal charges paid | (5,196,789) | (4,773,143) |
| Net cash used in capital and related financing activities | (19,355,010) | (15,814,135) |
| Cash Flows From Investing Activities | | |
| Receipt of repayments on other receivables | - | 74,311 |
| Interest and gains or losses on investments | 1,200,483 | 1,066,253 |
| Net cash provided by investing activities | 1,200,483 | 1,140,564 |
| Net change in cash and cash equivalents | 2,957,909 | (621,230) |
| Cash and cash equivalents at beginning of year (including restricted accounts totaling \$72,228,518 for 2016 and \$87,750,980 for 2015) | 147,329,294 | 147,950,524 |
| Cash and cash equivalents at end of year (including restricted accounts totaling \$71,842,304 for 2016 and \$72,228,518 for 2015) | \$ 150,287,203 | \$ 147,329,294 |

(Continued)

Palm Beach County, Florida Department of Airports

Statements of Cash Flows (Continued)
Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Reconciliation of Operating Loss to Net Cash Provided by | | |
| Operating Activities: | | |
| Operating loss | \$ (8,653,352) | \$ (6,686,092) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,480,247 | 27,443,447 |
| Provision for doubtful accounts | (6,592) | (69,895) |
| Changes in assets, liabilities and deferred inflows/outflows: | | |
| Accounts receivable | (430,390) | 687,463 |
| Due from other funds | 107,181 | (107,181) |
| Inventories | (124,270) | (110,082) |
| Other current assets | 1,199,860 | (3,642,312) |
| Accounts and contracts payable | (1,471,265) | (4,158,787) |
| Compensated absences payable | 76,438 | 16,199 |
| Unearned revenues | 218,710 | 510,873 |
| Due to other funds | 38,421 | 20,980 |
| Other assets | (12,124) | (5,368) |
| Other liabilities | 23,999 | (2,860) |
| Security deposits | (2,444) | (20,127) |
| Deferred outflows of resources-Pension | (2,329,472) | (1,508,502) |
| Deferred inflows of resources-Pension | (649,465) | (459,503) |
| Net pension liability | 3,395,716 | 1,873,263 |
| Total adjustments | 29,514,550 | 20,467,608 |
| Net cash provided by operating activities | \$ 20,861,198 | \$ 13,781,516 |
| Supplemental Disclosures of Noncash Capital & Related Financing Activities | | |
| Amortization of premium on bonds, including write off | \$ 503,992 | \$ (7,932) |
| Amortization of deferred advance refunding loss | \$ 10,896 | \$ - |
| Capital assets in accounts/contracts payable | \$ 3,010,983 | \$ 20,468,264 |
| Disposition of fully depreciated capital assets | \$ 1,174,516 | \$ 1,925,427 |
| Capital grants receivable | \$ 7,222,465 | \$ 17,439,881 |
| Passenger facility charges receivable | \$ 1,831,731 | \$ 1,641,837 |

See Notes to Financial Statements.

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

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

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

D. 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.

E. 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.

F. 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.

G. 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, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as “noise-impacted” surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration (FAA) Noise Abatement Grant Program for reimbursement. Those items that are deemed to be capital expenditures are recorded as capital asset additions when the costs are incurred. The FAA funds approximately 80% of these costs with the remainder financed by the State of Florida and the Department of Airports. The FAA retains a continuing interest in the properties equal to its original funding percentage and restricts the use of such properties to purposes which are compatible with noise levels associated with the operation of Airports. The total cost associated with acquiring these parcels of land are \$49,866,823 at September 30, 2016 and 2015, and is recorded under the caption “land” in the accompanying statements of net position.

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

H. 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.

I. Security Deposits

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

J. Unearned Revenue

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

K. Restricted Assets

Certain assets are restricted in accordance with the provisions of the Bond Resolution (Resolution) and in accordance with FAA restrictions. Assets restricted under the Resolution which are designated primarily for payment of debt service are \$3,504,096 and \$4,935,645 at September 30, 2016 and 2015, respectively, and the retention of the operation and maintenance reserve of \$7,883,648 and \$7,502,828 at September 30, 2016 and 2015, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately \$1,565,627 and \$2,034,811 at September 30, 2016 and 2015, respectively, and results from the sale of excess land previously contributed by the FAA and not required for aviation purposes. These assets are restricted until appropriated for FAA approved projects. In addition, the Department of Airports also has restricted assets consisting of cash and receivables of approximately \$54,538,303 and \$56,384,514 at September 30, 2016 and 2015, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

L. Amortization of Discounts/Premiums on Bonds and Debt Issuance Costs

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

M. Interest

Interest costs are expensed or capitalized in accordance with the provisions of GASB Statement No. 62. The amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets acquisition periods that theoretically could have been avoided if outlays for the assets had not been made. The amount of interest cost incurred was \$3,930,264 and \$4,413,766 for the fiscal years ended September 30, 2016 and 2015, respectively, none of which was recorded as capitalized interest in either fiscal year as the construction activity conducted by the Airports is primarily funded through capital grants and/or passenger facility charges.

N. 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.

O. 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 \$271,834,587. Cumulative PFC expenditures through September 30, 2016, total \$184,816,071.

P. 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.

Q. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources which represents a consumption of net position applicable to a future period and will not be recognized as an outflow or expense until that time. The Department reports deferred outflows related to pensions and deferred outflows related to the loss on the revenue refunding bonds.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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, 2016 and 2015:

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| County Internal Investment Pool | \$ 94,074,070 | \$ 90,138,212 |
| Non-pooled Money Market Funds | 52,706,572 | 52,558,098 |
| Cash with fiscal agent | 3,505,461 | 4,631,884 |
| Petty cash | 1,100 | 1,100 |
| Total | \$ 150,287,203 | \$ 147,329,294 |
| Amounts as presented in the financial statements are as follows: | | |
| Unrestricted pooled cash and cash equivalents | \$ 78,443,799 | \$ 75,099,676 |
| Unrestricted nonpooled cash and cash equivalents | 1,100 | 1,100 |
| Total unrestricted cash and cash equivalents and investments | 78,444,899 | 75,100,776 |
| Restricted pooled cash and cash equivalents | 15,630,271 | 15,038,536 |
| Restricted nonpooled cash and cash equivalents | 52,706,572 | 52,558,098 |
| Restricted cash with fiscal agent | 3,505,461 | 4,631,884 |
| Total restricted cash and cash equivalents and investments | 71,842,304 | 72,228,518 |
| Total cash and cash equivalents and investments | \$ 150,287,203 | \$ 147,329,294 |

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 \$1.3 and \$1.4 billion as of September 30, 2016 and 2015, respectively, of which approximately 6% and 11%, 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.

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.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

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

As of September 30, 2016, the Department of Airports had \$3,505,461 on deposit with a fiscal agent as required by the bond documents and \$52,706,572 of PFC monies held in a non-pooled money market account; the Department had the following underlying 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 | \$ 3,505,461 | 100% | Less than 1 yr | AAAm |
| Wells Fargo Advantage Heritage Fund Institutional Class | \$ 52,706,572 | 100% | Less than 1 yr | AAAm |

As of September 30, 2015, the Department of Airports had \$4,631,884 on deposit with a fiscal agent as required by the bond documents and \$52,558,098 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 | \$ 4,631,884 | 100% | Less than 1 yr | AAAm |
| Wells Fargo Advantage Heritage Fund Institutional Class | \$ 52,558,098 | 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, Florida 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 (CMOs), money market mutual funds and certain corporate securities.

Note 3. Capital Assets

| | Balance at | | | | Balance at |
|--|-----------------------|----------------------|---------------------|--------------------|-----------------------|
| | September 30, | Additions | Retirements | CIP Transfer | September 30, |
| | 2015 | | | | 2016 |
| Depreciable capital assets | | | | | |
| Buildings | \$ 371,809,068 | \$ 231,865 | \$ (2,027,959) | \$ 59,898,144 | \$ 429,911,118 |
| Improvements other than buildings | 241,346,565 | 85,347 | - | 23,171,502 | 264,603,414 |
| Furniture, fixtures and equipment | 43,256,622 | 1,300,934 | (1,080,848) | 104,100 | 43,580,808 |
| Intangible – easement rights | 13,754,957 | - | - | - | 13,754,957 |
| Total depreciable capital assets | 670,167,212 | 1,618,146 | (3,108,807) | 83,173,746 | 751,850,297 |
| Less accumulated depreciation | | | | | |
| Buildings | 227,949,114 | 16,225,147 | (1,455,232) | - | 242,719,029 |
| Improvements other than buildings | 178,117,892 | 9,790,611 | - | - | 187,908,503 |
| Furniture, fixtures and equipment | 35,690,959 | 3,120,616 | (1,076,881) | - | 37,734,694 |
| Intangible – easement rights | 4,878,666 | 343,874 | - | - | 5,222,540 |
| Total accumulated depreciation | 446,636,631 | 29,480,248 | (2,532,113) | - | 473,584,766 |
| Depreciable capital assets, net of accumulated depreciation | 223,530,581 | (27,862,102) | (576,694) | 83,173,746 | 278,265,531 |
| Nondepreciable capital assets | | | | | |
| Land | 108,129,920 | 478,159 | - | 6,988,124 | 115,596,203 |
| Construction in progress | 51,392,749 | 53,905,313 | - | (90,202,091) | 15,095,971 |
| Total capital assets | \$ 383,053,250 | \$ 26,521,370 | \$ (576,694) | \$ (40,221) | \$ 408,957,705 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 3. Capital Assets (Continued)

| | Balance at September 30, 2014 | Additions | Retirements | CIP Transfer | Balance at September 30, 2015 |
|--|-------------------------------------|----------------------|---------------------|------------------|-------------------------------------|
| Depreciable capital assets | | | | | |
| Buildings | \$ 371,358,787 | \$ 183,701 | \$ (1,897,295) | \$ 2,163,875 | \$ 371,809,068 |
| Improvements other than buildings | 240,681,194 | 50,621 | - | 614,750 | 241,346,565 |
| Furniture, fixtures and equipment | 42,270,671 | 1,208,443 | (505,492) | 283,000 | 43,256,622 |
| Intangible – easement rights | 13,754,957 | - | - | - | 13,754,957 |
| Total depreciable capital assets | 668,065,609 | 1,442,765 | (2,402,787) | 3,061,625 | 670,167,212 |
| Less accumulated depreciation | | | | | |
| Buildings | 214,533,963 | 15,169,238 | (1,754,087) | - | 227,949,114 |
| Improvements other than buildings | 168,942,782 | 9,175,110 | - | - | 178,117,892 |
| Furniture, fixtures and equipment | 33,441,228 | 2,755,225 | (505,494) | - | 35,690,959 |
| Intangible – easement rights | 4,534,792 | 343,874 | - | - | 4,878,666 |
| Total accumulated depreciation | 421,452,765 | 27,443,447 | (2,259,581) | - | 446,636,631 |
| Depreciable capital assets, net of accumulated depreciation | 246,612,844 | (26,000,682) | (143,206) | 3,061,625 | 223,530,581 |
| Nondepreciable capital assets | | | | | |
| Land | 101,070,428 | 49,274 | - | 7,010,218 | 108,129,920 |
| Construction in progress | 16,845,585 | 44,619,007 | - | (10,071,843) | 51,392,749 |
| Total capital assets | \$ 364,528,857 | \$ 18,667,599 | \$ (143,206) | \$ - | \$ 383,053,250 |

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 \$2,776,993 and \$3,051,595 for the years ended September 30, 2016 and 2015, respectively. All the Department's leases are operating leases. A significant portion of the rental car companies operating leases are scheduled to expire after fiscal year 2018 resulting in a decline in minimum future receipts for fiscal year 2019 and beyond. Management expects that these rental car company agreements will be reinstated effective 2019 however.

Palm Beach County, Florida 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:

Fiscal Years Ending September 30.

| | |
|------------|-----------------------|
| 2017 | \$ 34,074,573 |
| 2018 | 33,867,594 |
| 2019 | 21,880,420 |
| 2020 | 13,797,178 |
| 2021 | 11,492,219 |
| Thereafter | 59,222,620 |
| | <u>\$ 174,334,604</u> |

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2016 and 2015, is as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-----------------------|----------------------|
| Buildings | \$ 309,490,928 | \$ 251,620,742 |
| Less accumulated depreciation | 188,129,408 | 177,177,660 |
| | <u>121,361,520</u> | <u>74,443,082</u> |
| Land | 51,648,369 | 9,158,963 |
| Property held for lease, net | <u>\$ 173,009,889</u> | <u>\$ 83,602,045</u> |

The land held for lease component increased significantly for the year ended September 30, 2016 as management deemed a sizeable area now available for leasing. Various parcels immediately west of the PBI A had been acquired from 2007 through 2016 under noise abatement funding programs for a total value of approximately \$35 million. This area is now contiguous and is suitable for certain leasing uses that are compatible with noise and runway protection zone restrictions. Additionally in 2016, the Department acquired other properties which are deemed available for lease.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 5. Revenue Bonds Payable and Long-Term Obligations

Revenue bonds payable by the Department consist of the following as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|--|---------------|---------------|
| Series 2016 Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2017 through October 1, 2036, with interest at 4.99% payable semi-annually on October 1 and April 1. | \$ 57,070,000 | \$ - |
| Series 2006A Revenue Bonds, refunded in 2016 | - | 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. | 14,430,000 | 16,855,000 |
| | 71,500,000 | 85,935,000 |
| Less current portion | 2,565,000 | 2,425,000 |
| | 68,935,000 | 83,510,000 |
| Unamortized bond premium | 13,127,311 | 327,967 |
| Long-term portion | \$ 82,062,311 | \$ 83,837,967 |
| | | |

Series 2006 A and B airport System Revenue Bonds

The proceeds of the Series 2006A, \$69,080,000 Airport System Revenue Bonds, dated May 17, 2006, were used for the construction of a long-term parking garage addition, which added 3,200 spaces to the existing parking structure. 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. Series 2006 A was refunded in its entirety during fiscal year 2016, as discussed in the section below.

Series 2016 Revenue Refunding Bonds

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

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

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

Bond Resolution

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

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 2016 was 3.64 times the aggregate debt service; principal and interest paid in 2016 and Net Revenues Available for Debt Service were approximately \$6.5 and \$21.8 million, respectively.

Palm Beach County, Florida 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, 2016 and 2015, is as follows:

| | Balance at October 1, 2015 | Additions | Retirements | Reductions | Balance at September 30, 2016 | Due Within One Year |
|------------------------------|----------------------------------|----------------------|----------------------|---------------------|-------------------------------------|---------------------------|
| Revenue bonds: | | | | | | |
| Series 2006A | \$ 69,080,000 | \$ - | \$ 69,080,000 | \$ - | \$ - | \$ - |
| Series 2006B | 16,855,000 | - | - | 2,425,000 | 14,430,000 | 2,565,000 |
| Series 2016 | - | 57,070,000 | - | - | 57,070,000 | - |
| Compensated absences payable | 1,123,739 | 76,438 | - | - | 1,200,177 | 83,928 |
| | <u>\$ 87,058,739</u> | <u>\$ 57,146,438</u> | <u>\$ 69,080,000</u> | <u>\$ 2,425,000</u> | <u>72,700,177</u> | <u>\$ 2,648,928</u> |
| Less current maturities | | | | | 2,648,928 | |
| Long-term portion | | | | | 70,051,249 | |
| Add unamortized bond premium | | | | | 13,127,311 | |
| Total | | | | | <u>\$ 83,178,560</u> | |

| | Balance at October 1, 2014 | Additions | Retirements | Reductions | Balance at September 30, 2015 | Due Within One Year |
|------------------------------|----------------------------------|------------------|-------------|----------------------|-------------------------------------|---------------------------|
| Revenue bonds: | | | | | | |
| Series 2006A | \$ 69,080,000 | \$ - | \$ - | \$ - | \$ 69,080,000 | \$ - |
| Series 2006B | 16,855,000 | - | - | - | 16,855,000 | 2,425,000 |
| Series 2002 | 12,500,000 | - | - | 12,500,000 | - | - |
| OPEB | 5,249 | - | - | 5,249 | - | - |
| Compensated absences payable | 1,107,540 | 16,199 | - | - | 1,123,739 | 74,035 |
| | <u>\$ 99,547,789</u> | <u>\$ 16,199</u> | <u>\$ -</u> | <u>\$ 12,505,249</u> | <u>87,058,739</u> | <u>\$ 2,499,035</u> |
| Less current maturities | | | | | 2,499,035 | |
| Long-term portion | | | | | 84,559,704 | |
| Add unamortized bond premium | | | | | 327,967 | |
| Total | | | | | <u>\$ 84,887,671</u> | |

Palm Beach County, Florida 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:

| Fiscal Years Ending September 30, | Principal | Interest | Total |
|-----------------------------------|----------------------|----------------------|-----------------------|
| 2017 | \$ 2,565,000 | \$ 2,714,923 | \$ 5,279,923 |
| 2018 | 2,815,000 | 3,467,468 | 6,282,468 |
| 2019 | 2,980,000 | 3,298,776 | 6,278,776 |
| 2020 | 3,145,000 | 3,119,840 | 6,264,840 |
| 2021 | 3,325,000 | 2,930,718 | 6,255,718 |
| 2022-2026 | 13,255,000 | 12,574,875 | 25,829,875 |
| 2027-2031 | 16,895,000 | 8,823,875 | 25,718,875 |
| 2032-2036 | 21,540,000 | 4,042,500 | 25,582,500 |
| 2037 | 4,980,000 | 124,500 | 5,104,500 |
| | <u>\$ 71,500,000</u> | <u>\$ 41,097,475</u> | <u>\$ 112,597,475</u> |

Note 6. Retirement Plans

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

Plan Descriptions

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

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

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

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

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

PENSION EXPENSE/EXPENDITURES

The Department's aggregate pension expense/expenditures for all plans amounted to \$1,169,674 for the fiscal year ended September 30, 2016. The Department's aggregate net pension liability for all plans was \$8,323,192, with balances of deferred outflows of resources related to pensions of \$4,340,069 and deferred inflows of resources related to pensions of \$1,640,505 as of September 30, 2016.

FLORIDA RETIREMENT SYSTEM (FRS) PENSION PLAN

Benefits Provided

The Florida Retirement System was created on December 1, 1970. Members enrolled in the FRS and actively employed on July 1, 2001, or first enrolled between July 1, 2001 and June 30, 2011, will be vested, or eligible to receive future benefits after 6 years of creditable service. Participants first enrolled on or after July 1, 2011 will be vested, or eligible to receive future benefits after 8 years of creditable service. Retirement, disability, and death benefits are based on age, average final compensation and years-of-service credit. For members initially enrolled in the FRS before July 1, 2011, average final compensation is the average of the five highest fiscal years of salary earned during covered employment. For members initially enrolled in the FRS on or after July 1, 2011, average final compensation is the average of the eight highest fiscal years of salary earned during covered employment. Members are eligible for normal retirement when they have met the minimum requirements established by their membership class. For members initially enrolled in the FRS before July 1, 2011, Regular Class members are eligible for normal retirement if they are vested and age 62 or if they have 30 years of creditable service regardless of age. For members initially enrolled in the FRS on or after July 1, 2011, Regular Class members are eligible for normal retirement if they are vested and age 65 or if they have 33 years of creditable service regardless of age. Early retirement may be taken any time after vesting. However, there is a 5% reduction of benefits for each year prior to normal retirement age or date. The percentage level of employees' payroll contribution rates is determined using the frozen entry age actuarial cost method.

Beginning July 1, 1998, the FRS implemented the Deferred Retirement Option Program (DROP), which is a program within the FRS Pension Plan that allows members to retire without terminating their employment for up to five years while their retirement benefits accumulate and earn interest compounded monthly at a stated effective annual rate. For members who entered DROP prior to July 1, 2011, the rate is 6.5%. For members who enter DROP on or after July 1, 2011, the rate is 1.3%. Members may participate in DROP when they are vested and have reached their normal retirement date. When the DROP period ends, members must terminate employment. At that time, members will receive their accumulated DROP benefits and begin receiving their monthly retirement benefit.

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

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Contributions

The following membership classes and contribution rates, which apply to both the FRS Pension Plan and the FRS Investment Plan, were in effect at September 30, 2016:

| <u>Membership Class</u> | <u>Employee Contribution Rate</u> | <u>Employer Contribution Rate*</u> |
|---|---|--|
| Regular | 3.00% | 7.52% |
| Special Risk | 3.00% | 22.57% |
| State Attorney/Public Defender | 3.00% | 42.10% |
| County, City, Special District Elected Officers | 3.00% | 42.47% |
| Special Risk Administrative Support | 3.00% | 28.06% |
| Senior Management | 3.00% | 21.77% |
| Deferred Retirement Option Program | N/A | 12.99% |

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

The Department's employer contributions to the FRS Pension Plan totaled approximately \$753,000 and employee contributions totaled approximately \$149,000 for the fiscal year ended September 30, 2016. The Department contributed 100% of its statutorily required contributions for the current year and preceding two years.

Net Pension Liability, Deferrals and Pension Expense

At September 30, 2016, the Department reported a liability of \$6.2 million for its proportionate share of the FRS Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Department's proportionate share of the net pension liability was based on the Department's 2015-16 fiscal year contributions relative to the 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the Department's proportionate share was .025% of the County portion, which was a nonmaterial change from its proportionate share measured as of June 30, 2015.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

For the fiscal year ended September 30, 2016, the Department recognized an increase of pension expense of \$416,779 related to the FRS Pension Plan. In addition, the County reported deferred outflows of resources and deferred inflows of resources related to the FRS Pension Plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 473,854 | \$ 57,621 |
| Change of assumptions | 374,397 | - |
| Net difference between projected and actual earnings on pension plan investments | 2,847,022 | 1,247,323 |
| Changes in proportion and differences between Department contributions and proportionate share of contributions | 106,007 | 286,530 |
| Department contributions subsequent to the measurement date | 199,385 | - |
| | <u>\$ 4,000,665</u> | <u>\$ 1,591,474</u> |

The Department's contributions to the FRS Pension Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the FRS Pension Plan will be recognized in pension expense as follows:

| Fiscal Years Ending September 30 | Amount |
|----------------------------------|------------|
| 2017 | \$ 267,719 |
| 2018 | 267,719 |
| 2019 | 891,381 |
| 2020 | 634,377 |
| 2021 | 109,954 |
| Thereafter | 38,656 |

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.60% |
| Salary increases | 3.25%, average, including inflations |
| Investment rate of return | 7.60%, net of pension plan investment expense, including inflation |
| Discount rate | 7.60% |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB, with adjustments for mortality improvements based on Scale AA.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

| Asset Class | Target Allocation (1) | Annual Arithmetic Return | Compound Annual (Geometric) Return | Standard Deviation |
|------------------------|------------------------------|---------------------------------|---|---------------------------|
| Cash | 1.0% | 3.0% | 3.0% | 1.7% |
| Fixed Income | 18.0% | 4.7% | 4.6% | 4.6% |
| Global Equity | 53.0% | 8.1% | 6.8% | 17.2% |
| Real Estate (Property) | 10.0% | 6.4% | 5.8% | 12.0% |
| Private Equity | 6.0% | 11.5% | 7.8% | 30.0% |
| Strategic Investments | 12.0% | 6.1% | 5.6% | 11.1% |
| TOTAL | 100.0% | | | |

Assumed inflation – Mean 2.6% 1.9%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. The Plan's fiduciary net position was projected to be available to make all projected benefit payments of current and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Sensitivity to Changes in the Discount Rate

The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the Department's proportionate share of the net pension liability would be if were calculated using a discount rate that is 1-percentage point lower (6.60%) or 1% higher (8.60%) than the current rate:

| | 1% Decrease (6.60%) | Current Discount Rate (7.60%) | 1% Increase (8.60%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Department's proportionate share of the Net Pension Liability | \$ 11,393,779 | \$ 6,188,680 | \$ 1,856,123 |

Pension Plan Fiduciary Net Position

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

RETIREE HEALTH INSURANCE SUBSIDY (HIS) PROGRAM

Benefits Provided

For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

The HIS Program is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2016, the contribution rate was 1.66% of payroll. The County contributed 100% of its statutorily required contributions for the current and preceding three years. The HIS Program contributions are deposited in a separate trust fund from which payments are authorized. The HIS Program benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The Department's employer contributions to the HIS Program totaled \$12,498 for the fiscal year ended September 30, 2016. The Department contributed 100% of its statutorily required contributions for the current and preceding two years.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Net Pension Liability, Deferrals, and Pension Expense

At September 30, 2016, the Department reported a liability of \$2.1 million for its proportionate share of the HIS Program's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Department's proportionate share of the net pension liability was based on the Department's 2015-16 fiscal year contributions relative to the 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the Department's proportionate share of the County's liability was 1.5751% which was a non-material decrease from its proportionate share measured as of June 30, 2015.

In addition, the Department reported deferred outflows of resources and deferred inflows of resources related to the HIS Program from the following sources which are the Department's proportionate share of the County's totals:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 4,862 |
| Change of assumptions | 334,959 | - |
| Net difference between projected and actual earnings on pension plan investments | 1,079 | - |
| Changes in proportion and differences between Department contributions and proportionate share of contributions | - | 44,169 |
| Department contributions subsequent to the measurement date | 3,366 | - |
| Total | \$ 339,404 | \$ 49,031 |

The Department's contributions to the HIS Program subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Program will be recognized in pension expense as follows:

| Fiscal Years Ending September 30 | Amount |
|----------------------------------|-----------|
| 2017 | \$ 50,460 |
| 2018 | 50,460 |
| 2019 | 50,255 |
| 2020 | 50,156 |
| 2021 | 44,405 |
| Thereafter | 41,271 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--------------------------------------|
| Inflation | 2.60% |
| Salary increases | 3.25%, average, including inflations |
| Investment rate of return | 2.85% Municipal Bond Rate |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent of discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable bond index.

Sensitivity to Changes in the Discount Rate.

The following presents the County's proportionate share of the net position calculated using the discount rate of 2.85%, as well as what the County's proportionate share of the net pension liability would be if were calculated using a discount rate that is 1-percentage point lower (1.85%) or 1% higher (3.85%) than the current rate:

| | 1% Decrease (1.85%) | Current Discount Rate (2.85%) | 1% Increase (2.85%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Department's proportionate share of the Net Pension Liability | \$ 2,448,770 | \$ 2,134,512 | \$ 1,873,694 |

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

FLORIDA RETIREMENT SYSTEM INVESTMENT PLAN

Vesting Provisions

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll, which is included in the FRS contribution rates, and by forfeited benefits of Investment Plan members. For the fiscal year ended September 30, 2016, the information for the amount of forfeitures was unavailable from the SBA, however, management believe that these amounts, if any, would be immaterial to the County. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The Department's employer contributions to the Investment Plan totaled approximately \$66,000 for the fiscal year ended September 30, 2016.

Note 7. Related Party Transactions

The Department reimburses the General Fund of Palm Beach County for an allocated portion of certain support department costs which include such services as legal, administrative, fiscal, engineering, purchasing, personnel, internal audit and communication costs. The Department is also charged for the cost of services provided by the Motor Pool, Casualty Self-Insurance, Workers' Compensation and Data Processing Internal Service Funds of the County. The total cost for the above services was approximately \$3.0 million and \$4.5 million for the fiscal years ended September 30, 2016 and 2015, respectively. In addition, the Department pays solid waste disposal fees to the Solid Waste Authority of Palm Beach County, a dependent special district and component unit of Palm Beach County, Florida. Fees paid to the Solid Waste Authority for the fiscal years ended September 30, 2016 and 2015, totaled approximately \$292,000 and \$313,000, respectively. At September 30, 2016, there was a receivable from other funds and departments of Palm Beach County of approximately \$154,000. At September 30, 2016 and 2015, approximately \$154,000 and \$115,000, respectively, was payable to other Palm Beach County funds and departments.

The Department also contracts directly with the Palm Beach County Sheriff's Department for security services at PBI. The cost of these services from the Sheriff's Department was approximately \$7.8 and \$7.7 million for the fiscal years ended September 30, 2016 and 2015, respectively. The Department also contracts with the Fire-Rescue Department for fire-rescue service at PBI. The cost of these services was approximately \$5.2 and \$4.8 million for the fiscal years ended September 30, 2016 and 2015, respectively.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 8. Major Customers

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

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

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

| Airline | Percent of Activity Based Upon Enplaned Passengers | |
|-------------------|---|---------------|
| | Fiscal Years Ended September 30, | |
| | 2016 | 2015 |
| Jet Blue | 27.3% | 25.9% |
| Delta | 27.0% | 26.8% |
| American | 19.2% | 20.9% |
| Southwest | 10.6% | 11.1% |
| United | 10.1% | 10.1% |
| Spirit | 1.4% | 1.5% |
| Air Canada | 1.4% | 1.1% |
| Frontier Airlines | 0.9% | 1.0% |
| Others | 2.1% | 1.6% |
| | <u>100.0%</u> | <u>100.0%</u> |

Note 9. Commitments and Contingencies

Litigation

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

Grants

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

Risk Management

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

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 9. Commitments and Contingencies (Continued)

The Department participates in the County-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department by the County self-insurance fund are based on actuarial estimates of the amounts needed to pay prior and current year claims. Premiums paid by the department were \$2,187,000 and \$2,052,000 for the fiscal years ended September 30, 2016 and 2015, 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, 2016 and 2015, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

Contract Commitments

The Department has numerous uncompleted design and construction contracts for improvements to the airport system. At September 30, 2016 and 2015, the remaining commitment on these uncompleted contracts was \$34,968,550 and \$38,956,141, respectively, which is summarized as follows:

| | Contract Amount | Approved Payments | Retainage Payable | Remaining Contract Commitment |
|------|--------------------|----------------------|----------------------|-------------------------------------|
| 2016 | \$ 142,460,960 | \$ 107,208,660 | \$ 283,750 | \$ 34,968,550 |
| 2015 | \$ 116,092,463 | \$ 76,467,247 | \$ 669,075 | \$ 38,956,141 |

Note 10. 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 beginning with its fiscal 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. The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and the pattern of sharing costs between the employer and plan members to that point.

Palm Beach County, Florida Department of Airports

Notes to Financial Statements

Note 10. Other Post-Employment Benefits (Continued)

As determined by an actuarial valuation, the County records a Net OPEB obligation in its government-wide financial statements related to the implicit subsidy. The Department participates in the County's plan on an allocation basis, which is approximately 10% to 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. The approximate portion of the County's actuarial accrued liability and unfunded actuarial accrued liability attributed to the Department is estimated at \$275,000 and \$254,000 at September 30, 2016 and 2015, respectively. The covered payroll is approximately \$8.8 million and \$8.3 million for fiscal years 2016 and 2015, respectively. Based on the Net OPEB allocation applicable to the Department, the following table reflects the components of the annual OPEB cost and (asset)/obligation for the years ended September 30, 2016 and 2015:

| | 2016 | 2015 |
|--|--------------------|-------------------|
| Annual required contribution (ARC) | \$ 22,000 | \$ 23,000 |
| Interest on net OPEB obligation | (5,254) | (3,414) |
| Adjustment to annually required contributions | 4,678 | 2,965 |
| Annual OPEB cost | 21,424 | 22,551 |
| Contributions made | (33,548) | (33,168) |
| Change in net OPEB obligation | (12,124) | (10,617) |
| Net OPEB obligation (asset) – beginning of year | (5,368) | 5,249 |
| Net OPEB (asset)/obligation – end of year | \$ (17,492) | \$ (5,368) |

The Department's Net OPEB obligation for fiscal year 2015 and 2016 was reported as a separate line item a net OPEB asset.

**Schedule of the Department's Proportionate Share of the Net Pension Liability-
Florida Retirement System Pension Plan**

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

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|
| Department's proportion of the FRS net pension liability | 0.025% | 0.024% | 0.023% |
| Department's proportionate share of the FRS net pension liability | \$ 6,188,680 | \$ 3,051,611 | \$ 1,399,741 |
| Department's covered-employee payroll | \$ 8,494,194 | \$ 9,226,506 | \$ 8,526,607 |
| Department's proportionate share of the FRS net pension liability as a percentage of covered payroll | 72.9% | 33.1% | 16.4% |
| FRS Plan fiduciary net position as a percentage of the total pension liability | 84.88% | 92.00% | 96.09% |

* The amounts presented for each fiscal year were determined as of June 30th. The schedule is presented to illustrate the requirements of GASB Statement No. 68. Currently, only data for fiscal years 2014, 2015 and 2016 is available.

**Schedule of the Department's Contributions
Florida Retirement System Pension Plan**

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|--------------|--------------|
| Contractually required FRS contribution | \$ 740,396 | \$ 687,814 | \$ 623,550 |
| FRS contributions in relation to the contractually required contribution | 740,396 | 687,814 | 623,550 |
| FRS contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Department's covered-employee payroll | \$ 8,712,549 | \$ 9,123,362 | \$ 8,356,633 |
| FRS contributions as a percentage of covered employee payroll | 8.50% | 7.50% | 7.50% |

Note: the schedule is presented to illustrate the requirements of GASB Statement No. 68. Currently, only data for 2014, 2015 and 2016 is available.

**Schedule of the Department's Proportionate Share of the Net Pension Liability-
Health Insurance Subsidy Pension Plan**

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

| | 2016 | 2015 | 2014 |
|---|---------------------|--------------|--------------|
| Department's proportion of the HIS net pension liability | 0.020% | 0.020% | 0.020% |
| Department's proportionate share of the HIS net pension liability | \$ 2,134,512 | \$ 1,875,865 | \$ 1,654,471 |
| Department's covered-employee payroll | \$ 8,494,194 | \$ 9,226,506 | \$ 8,526,607 |
| Department's proportionate share of the HIS net pension liability as a percentage of covered payroll | 25.1% | 20.3% | 19.4% |
| HIS Plan fiduciary net position as a percentage of the total pension liability | 0.97% | 0.50% | 0.99% |

* The amounts presented for each fiscal year were determined as of June 30th. The schedule is presented to illustrate the requirements of GASB Statement No. 68. Currently, only data for fiscal years 2014, 2015 and 2016 is available.

**Schedule of the Department's
Health Insurance Subsidy Pension Plan**

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|---------------|--------------|--------------|
| Contractually required HIS contribution | \$ 12,498 | \$ 8,777 | \$ 7,957 |
| HIS contributions in relation to the contractually required contribution | <u>12,498</u> | <u>8,777</u> | <u>7,957</u> |
| HIS contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Department's covered-employee payroll | \$ 8,712,549 | \$ 9,123,362 | \$ 8,356,633 |
| HIS contributions as a percentage of covered employee payroll | 0.10% | 0.10% | 0.10% |

Note: the schedule is presented to illustrate the requirements of GASB Statement No. 68. Currently, only data for 2014, 2015 and 2016 is available.

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RSM US LLP

**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 (the Department) as of September 30, 2016, 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 April 10, 2017.

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

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

RSM US LLP

West Palm Beach, Florida
April 10, 2017

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

Independent Auditor's Report

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, 2016, 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 April 10, 2017.

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.

RSM US LLP

West Palm Beach, Florida
April 10, 2017