

# **Palm Beach County, Florida Department of Airports**

Financial Report  
September 30, 2014

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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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2014 and 2013, 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 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, 2014 and 2013 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.

As discussed in note 12 to the financial statements, the Department restated its net position as of October 1, 2012, when adopting the requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 26, 2015, and March 25, 2014, 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.



West Palm Beach, Florida  
March 26, 2015

## Palm Beach County Department of Airports

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

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The following Management's Discussion and Analysis (MD&A) of the Palm Beach County Department of Airports' (the Department) activities and financial performance provides the reader with an introduction to the financial statements of the Department for the fiscal year ended September 30, 2014. 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 2014 results showed a 3% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 2,918,818.

Fiscal year 2013 results showed a .5% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 2,830,273.

The following table shows a summary of various activities:

	2014	2013	2012
Enplanements	2,913,818	2,830,273	2,816,618
% Change	3.0%	0.5%	(3.8)%
Air Carrier Operations	51,930	51,098	52,448
% Change	1.6%	(2.6)%	(4.1)%
Landed Weight	3,397,782	3,375,723	3,461,159
% Change	0.7%	(2.5)%	(4.1)%
Cargo Tons	26,468	21,039	21,004
% Change	25.8%	0.2%	9.4%
Parking Transactions	792,137	771,279	781,295
% Change	2.7%	(1.3)%	(6.7)%

## **Palm Beach County Department of Airports**

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

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#### **Financial Operations Highlights**

Financial impacts are highlighted as follows:

##### Changes Between 2014 and 2013

- Compared to the prior year, operating revenues increased 5% to \$68.6 million. Concessions revenues including car rental companies and parking increased by 7% resulting in revenue increase of \$2.1 million. Non-airline rentals also increase by 13% resulting in revenue increase of \$1.3 million. These rentals consist of buildings, hangars, and ground rentals.
- Compared to the prior year, operating expenses increased by 2.5% or \$1 million. Maintenance costs increased by 11% or \$620,000; other cost areas were stable with little or no increases.
- As a result of the factors above, 2014 operating income before depreciation increased \$2.2 million, or 8.6% over the prior year.
- During fiscal year 2014, hangar and building assets developed by tenants and sub-tenants at Lantana Airport were turned over to the Department. The fair market value of those assets are categorized as a contribution to the Department in the amount of \$7 million. These assets, while now owned by the Department will be managed by a private fixed base operator and will return revenue to the Department.

##### Changes Between 2013 and 2012

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

## Palm Beach County Department of Airports

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

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The change in net position for fiscal year 2014 totaled \$23 million; the change in net position for fiscal year 2013 totaled \$8.7 million.

	2014	2013	2012
Operating revenues	\$ 68,592,462	\$ 65,373,251	\$ 65,477,896
Operating expenses	40,785,658	39,773,302	40,532,190
<b>Operating income before depreciation and amortization and other nonoperating income and expenses</b>	27,806,804	25,599,949	24,945,706
Depreciation and amortization	28,471,031	28,586,881	26,933,358
<b>Operating loss</b>	(664,227)	(2,986,932)	(1,987,652)
Other nonoperating income and expenses, net, including capital contributions, transfers, and special items	23,648,363	11,703,598	15,331,848
<b>Change in net position</b>	<u>\$ 22,984,136</u>	<u>\$ 8,716,666</u>	<u>\$ 13,344,196</u>

## Palm Beach County Department of Airports

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

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#### Financial Position Summary

Net position may serve over time as a useful indicator of the Department's financial position. The Department's assets exceeded liabilities by approximately \$415 million at September 30, 2014, and \$392 million at September 30, 2013. A condensed summary of the Department's net position at September 30 is shown below:

	2014	2013	2012
Assets			
Current and other assets	\$ 158,907,589	\$ 141,935,552	\$ 137,833,625
Capital assets	364,528,857	368,067,625	380,441,693
<b>Total assets</b>	<b>523,436,446</b>	<b>510,003,177</b>	<b>518,275,318</b>
Deferred outflows of resources	-	56,449	165,485
Liabilities			
Current and other liabilities	21,450,618	18,410,782	22,380,666
Long-term debt outstanding	87,322,893	99,970,045	111,775,108
<b>Total liabilities</b>	<b>108,773,511</b>	<b>118,380,827</b>	<b>134,155,774</b>
Net Position			
Net investment in capital assets	265,752,985	257,614,568	258,943,490
Restricted	79,567,689	71,752,135	72,769,828
Unrestricted	69,342,261	62,312,096	52,571,711
<b>Total net position</b>	<b>\$ 414,662,935</b>	<b>\$ 391,678,799</b>	<b>\$ 384,285,029</b>

A significant portion of the Department's net position each year (64% at September 30, 2014) 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 (19% at September 30, 2014) 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 (17% at September 30, 2014) may be used to meet any of the Department's ongoing obligations.

#### Financial Position, 2014 Versus 2013

Total assets increased by \$13.4 million in 2014 due to the contributions and construction of new assets. Unrestricted cash and cash equivalents increased by \$3.4 million. Liabilities decreased by \$9.6 million, primarily due to repayment of long-term revenue bond principal of \$11.6 million. As a result of the foregoing, total net position increased by \$23 million over the prior year.

## Palm Beach County Department of Airports

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

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#### Financial Position, 2013 Versus 2012

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

#### 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, i.e., residual rate setting methodology. The terminal cost center expenditure requirements are wholly payable by airline rents, i.e., 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. Rights and obligations of the new 5 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 expects to achieve 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 2015 projected rates presented below are net of projected revenue sharing distributions.

	2015 Projected	2014	2013	2012
Landing fee (per 1,000 lbs MGLW)	\$ 1.208	\$ 1.393	\$ 1.370	\$ 1.405
Average annual terminal rate (per square foot)	\$ 53.05	\$ 63.93	\$ 64.66	\$ 62.97
Apron fee rental (annual, per linear foot)	n/a	\$ 347.27	\$ 307.18	\$ 294.10
Loading bridge annual rental per unit	n/a	\$ 61,694	\$ 65,034	\$ 68,949
Gross revenue from passenger airlines (in thousands)	\$ 10,385	\$ 20,583	\$ 20,935	\$ 21,843
Enplanements (in thousands)	2,962	2,914	2,830	2,817
Airline cost per enplanement	\$ 3.51	\$ 7.06	\$ 7.40	\$ 7.76
Landed weight of commercial aircraft	3,453	3,398	3,184	3,274
Signatory airline terminal leasehold area (sq ft)	162,029	196,918	199,642	203,961

## **Palm Beach County Department of Airports**

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

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#### **Factors Impacting the Airline sector and PBIA Traffic**

At PBIA, fiscal year 2014 passenger traffic was up 3% compared to a flat fiscal year 2013. Airline seat capacity serving PBIA for fiscal year 2014 increased by 1.1% over the prior fiscal year. Economic factors have moderated over the past two years, especially in the real estate industry. Continued moderation of employment will serve the travel industry well in the coming months. Management does not anticipate any significant changes in traffic during fiscal year 2015 and is projecting a slightly up year for passenger traffic in the range of 1% to 2%.

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

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

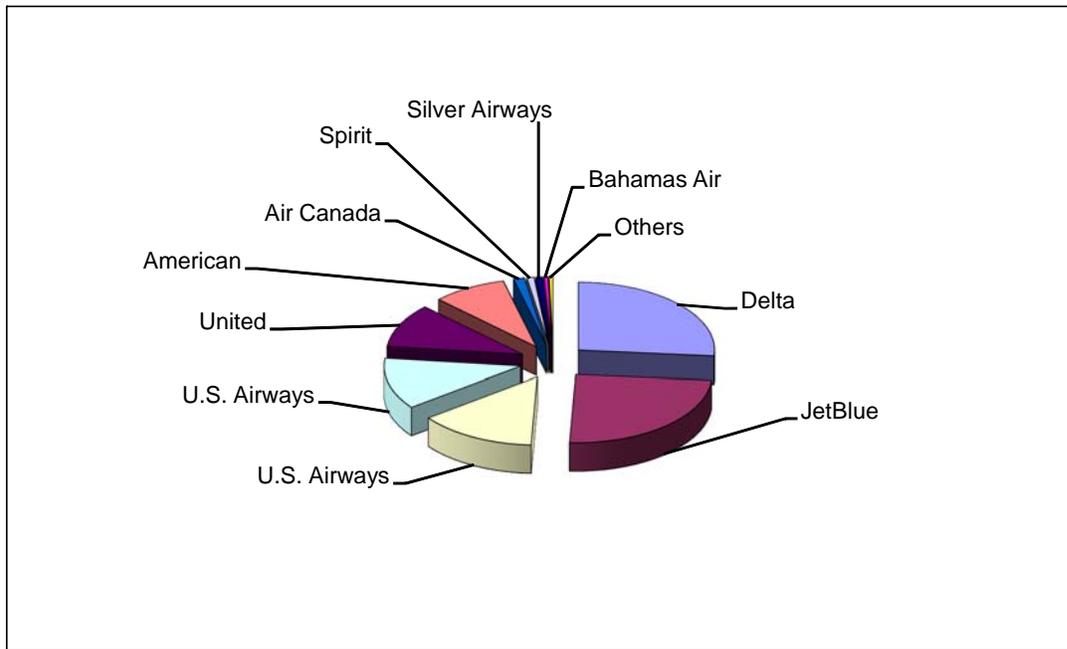
Major announcements of new Palm Beach International Airport flights include the addition of two new carriers: Allegiant Airlines with flights to Asheville, NC and Frontier Airlines with flights to Denver, CO, Dulles, Washington D.C., and Trenton, NJ. Additionally, existing carriers expanded their network of flights to Palm Beach International Airport, including Spirit to Boston, MA and Jetblue to DCA Reagan, Washington D.C.

**Palm Beach County 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 2014 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2013:



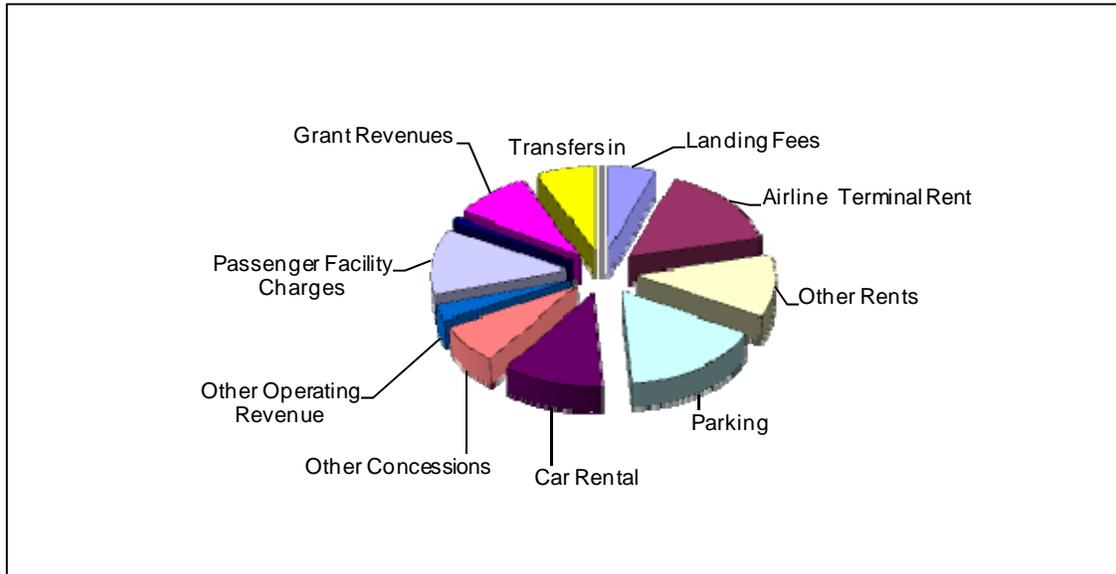
	2014	Change From 2013	% Change From 2013
Delta	1,537,080	113,731	8%
Jetblue	1,419,878	(45,200)	(3)%
U.S. Airways	815,735	9,328	1%
Southwest	705,565	(68,454)	(9)%
United	610,371	(12,363)	(2)%
American	513,595	135,963	36%
Air Canada	76,993	14,035	22%
Spirit	50,166	5,511	12%
Silver Airways	45,593	(446)	(1)%
Bahamas Air	29,029	10,547	57%
Others	25,249	18,389	268%
<b>Total</b>	<b>5,829,254</b>	<b>181,041</b>	<b>3%</b>

**Palm Beach County Department of Airports**

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

**Revenues**

The following chart and table summarize revenues for the year ended September 30, 2014:



	2014	Percent of Total	Change From 2013	% Change From 2013
<b>Operating</b>				
Landing fees	\$ 5,627,795	6%	\$ 212,114	4%
Airline terminal rent	15,188,763	16%	(496,612)	(3)%
Other rental revenue	11,160,516	11%	1,310,575	13%
Parking	15,641,316	16%	893,237	6%
Car rental concessions	10,965,438	11%	631,993	6%
Other concessions	7,143,451	7%	663,100	10%
Other operating revenue	2,865,183	3%	4,804	0%
<b>Total operating revenues</b>	<b>68,592,462</b>	<b>70%</b>	<b>3,219,211</b>	<b>5%</b>
<b>Other Sources</b>				
Passenger facility charges	11,923,661	13%	243,970	2%
Investment income	915,784	1%	1,238,653	(384)%
Contributions of assets	7,000,000	7%	6,761,829	2839%
Grants and other items	8,941,574	9%	2,126,128	31%
Transfers in	25,000	0%	25,000	0%
<b>Total other sources</b>	<b>28,806,019</b>	<b>30%</b>	<b>10,395,580</b>	<b>56%</b>
<b>Total revenues</b>	<b>\$ 97,398,481</b>	<b>100%</b>	<b>\$ 13,614,791</b>	<b>16%</b>

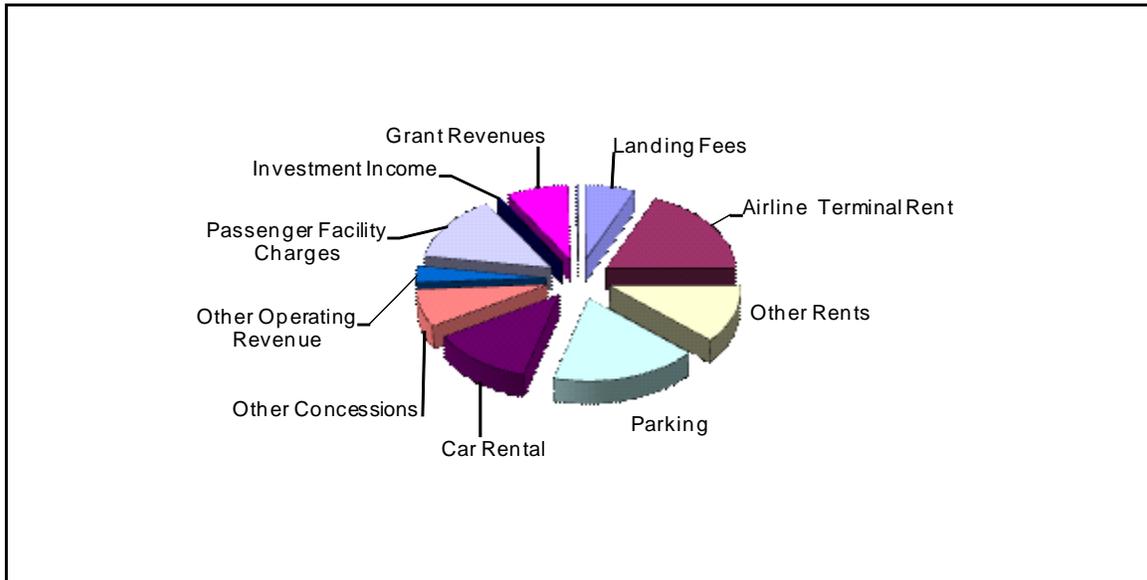
Non-airline rental revenue from buildings, hangars, and ground leases increased 13% due to fair market value adjustments and increased leased units. Parking revenues were up 6% due to increased passenger traffic and less off airport competition for customers. Car rental concessions were up 6% due to greater passenger traffic.

**Palm Beach County Department of Airports**

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

**Revenues (Continued)**

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



	2013	Percent of Total	Change From 2012	% Change From 2012
<b>Operating</b>				
Landing fees	\$ 5,415,681	6%	\$ (736,111)	(12)%
Airline terminal rent	15,685,375	19%	(35,234)	(0)%
Other rental revenue	9,849,941	12%	(267,818)	(3)%
Parking	14,748,079	18%	247,536	2%
Car rental concessions	10,333,445	12%	350,837	4%
Other concessions	6,480,351	8%	278,111	4%
Other operating revenue	2,860,379	3%	58,034	2%
<b>Total operating revenues</b>	<b>65,373,251</b>	<b>78%</b>	<b>(104,645)</b>	<b>(0)%</b>
<b>Other Sources</b>				
Passenger facility charges	11,679,691	14%	165,212	1%
Investment income	(322,869)	0%	(1,966,556)	(120)%
Contributions of assets	238,171	0%	(109,762)	(32)%
Grants and other items	6,815,446	8%	(1,535,472)	(18)%
<b>Total other sources</b>	<b>18,410,439</b>	<b>22%</b>	<b>(3,446,578)</b>	<b>(16)%</b>
<b>Total revenues</b>	<b>\$ 83,783,690</b>	<b>100%</b>	<b>\$ (3,551,223)</b>	<b>(4)%</b>

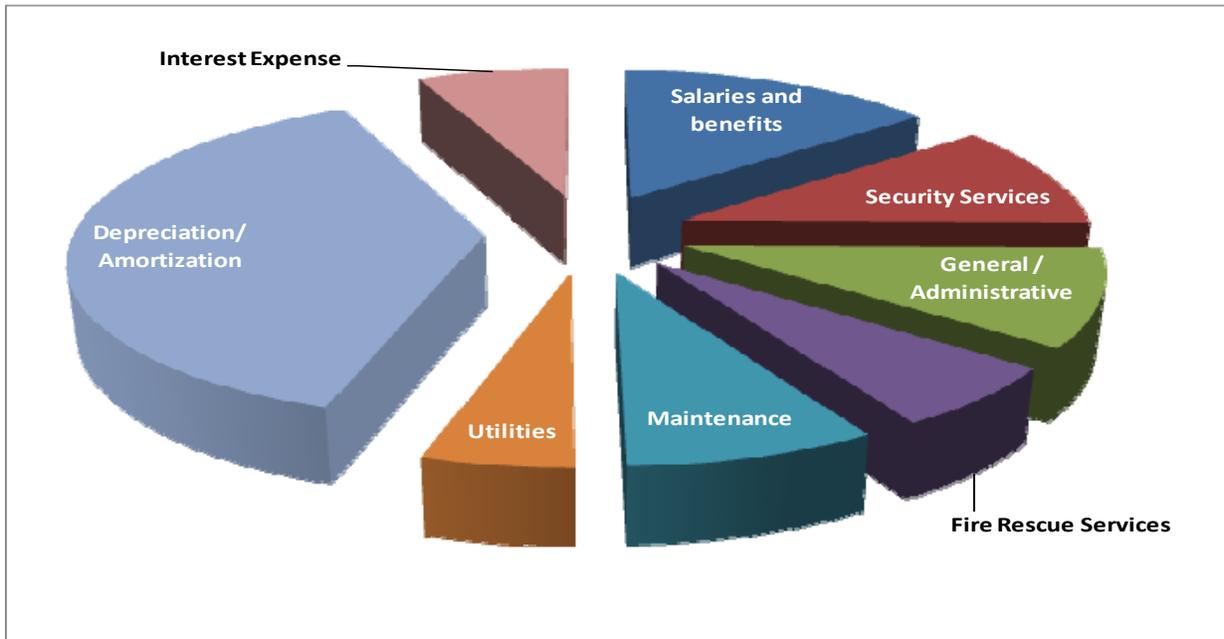
Airline terminal rent remained unchanged. Landing fees declined 12% due to decreased landing fee rates and declines in commercial airline landed weight. Concession revenues were up 4% and parking revenues were up 2%. Investment income resulted in a \$323,000 loss due to fair market value adjustments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

**Palm Beach County Department of Airports**

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

**Expenses**

The following chart and table summarize expenses for the year ended September 30, 2014:



	2014	Percent of Total	Change From 2013	% Change From 2013
<b>Operating</b>				
Salaries and benefits	\$ 10,873,560	15%	\$ 252,340	2%
Security services	7,855,968	11%	139,340	2%
General/administrative	7,382,320	10%	59,209	1%
Fire rescue services	4,704,580	6%	(102,337)	(2)%
Maintenance	6,221,826	8%	623,605	11%
Utilities	3,747,404	5%	40,199	1%
<b>Total operating</b>	<b>40,785,658</b>	<b>55%</b>	<b>1,012,356</b>	<b>3%</b>
Depreciation and Amortization	28,471,031	39%	(115,850)	(0)%
<b>Nonoperating:</b>				
Interest expense	5,132,523	6%	(669,577)	(12)%
Loss on disposal of fixed assets	-	0%	(917,468)	100%
Bond amortization	(32,185)	0%	17,962	(36)%
Transfers to Other County Funds	57,320	0%	19,899	53%
<b>Total non-operating</b>	<b>5,157,658</b>	<b>6%</b>	<b>(1,549,184)</b>	<b>(23)%</b>
<b>Total expenses</b>	<b>\$ 74,414,347</b>	<b>100%</b>	<b>\$ (652,678)</b>	<b>(1)%</b>

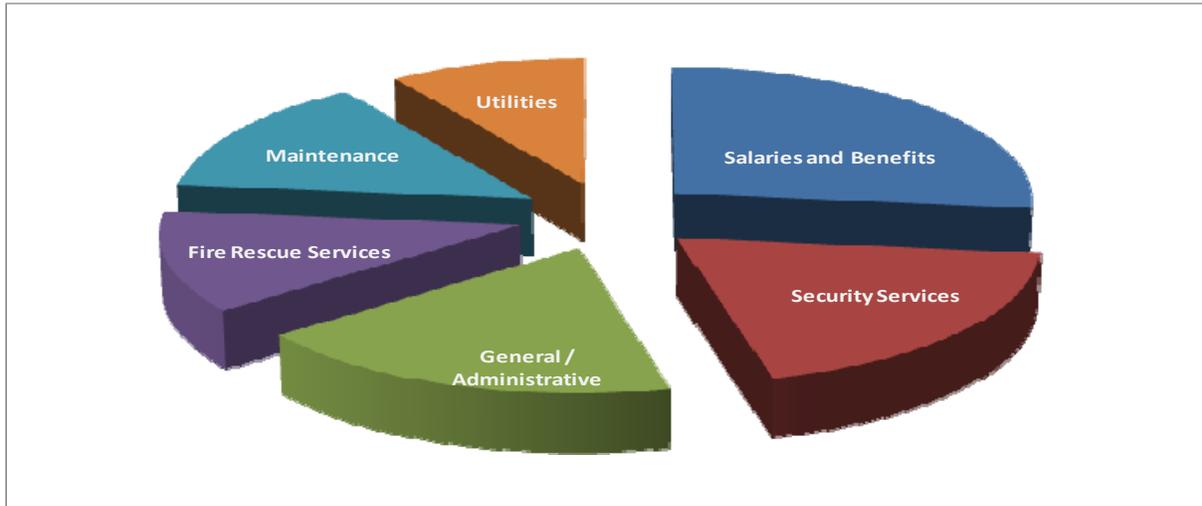
Operating expenses increased 3% overall primarily to increased maintenance costs which increased 11% year to year. Other cost categories were either flat or slightly decreased compared to the prior year.

**Palm Beach County Department of Airports**

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

**Expenses (Continued)**

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



	2013	Percent of Total	Change From 2012	% Change From 2012
<b>Operating</b>				
Salaries and benefits	\$ 10,621,220	14%	\$ 289,860	3%
Security services	7,716,628	10%	18,632	0%
General/administrative	7,323,111	10%	(699,545)	(9)%
Fire rescue services	4,806,917	6%	(580,827)	(11)%
Maintenance	5,598,221	7%	259,185	5%
Utilities	3,707,205	5%	(46,193)	(1)%
<b>Total operating</b>	<b>39,773,302</b>	<b>52%</b>	<b>(758,888)</b>	<b>(2)%</b>
Depreciation and Amortization	28,586,881	39%	1,653,523	6%
<b>Nonoperating:</b>				
Interest expense	5,802,100	8%	(632,218)	(10)%
Gain (loss) on disposal of capital assets	917,468	1%	917,468	100%
Bond amortization	(50,147)	0%	(103,365)	(0)%
Transfers to Other County Funds	37,421	0%	(212)	(1)%
<b>Total non-operating</b>	<b>6,706,842</b>	<b>9%</b>	<b>181,673</b>	<b>5%</b>
<b>Total expenses</b>	<b>\$ 75,067,025</b>	<b>100%</b>	<b>\$ 1,076,308</b>	<b>2%</b>

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

## Palm Beach County Department of Airports

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

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#### Summary of Cash Flow Activities

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

	2014	2013	2012
Cash flows provided by operating activities	\$ 27,733,171	\$ 24,752,735	\$ 23,420,601
Cash flows provided by (used in) investing activities	1,058,235	(188,264)	1,770,868
Cash flows provided by (used in) noncapital financing activities	345,575	533,812	700,936
Cash flows used in capital and related financing activities	(14,271,280)	(18,140,775)	(23,091,836)
<b>Net change in cash and cash equivalents</b>	<b>14,865,701</b>	<b>6,957,508</b>	<b>2,800,569</b>
Cash and cash equivalents			
Beginning of year	133,084,823	126,127,315	123,326,746
End of year	<u>\$ 147,950,524</u>	<u>\$ 133,084,823</u>	<u>\$ 126,127,315</u>

#### Capital Acquisitions and Construction Activities

During 2014, the Department expended \$18.0 million on capital activities. Completed projects during 2014 totaling \$9.5 million were transferred from construction-in-progress to their respective capital accounts. The major projects completed fiscal year 2014 involved airfield, parking garage and terminal improvements, as follows:

Building 3400 refurbishment	\$2.00 million
Pahokee Airport airfield lighting	1.33 million
North County Airport apron	1.14 million
Pahokee Airport apron	1.11 million
PBIA taxiway C	.5 million

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

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

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

**Palm Beach County Department of Airports**

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

**Long-Term Debt**

The Department had outstanding long-term debt of \$85.9 million and \$98.4 million as of September 30, 2014 and 2013, 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 2014:

	Balance at October 1, 2013	Additions	Reductions	Balance at September 30, 2014	Due Within One Year
Revenue Bonds:					
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	16,855,000	-
Series 2002	24,145,000	-	11,645,000	12,500,000	12,500,000
	<u>\$ 110,080,000</u>	<u>\$ -</u>	<u>\$ 11,645,000</u>	<u>98,435,000</u>	<u>\$ 12,500,000</u>
Less current maturities				<u>12,500,000</u>	
Long-term portion				<u>85,935,000</u>	
Add unamortized premium				<u>340,872</u>	
Less unamortized loss on refunding				<u>-</u>	
<b>Total</b>				<u><b>\$ 86,275,872</b></u>	

The following table reflects the debt activities that occurred during Fiscal Year 2013:

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

The County, on behalf of the Department, has not issued any new revenue bonds during fiscal years 2014 and 2013 and has no plans in the short or medium time frame for any new issues. The changes in debt in 2014 and 2013 represent payment of the required annual principal amounts per the maturity schedules. See Note 6, Revenue Bonds and Loan Payable, in the notes to the financial statements for additional information.

## **Palm Beach County Department of Airports**

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

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#### **Credit Ratings and Bond Insurance**

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

#### **Passenger Facility Charges**

The Department, as of September 30, 2014 and 2013, has collected \$205,679,438 and \$193,813,111, 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 \$156,678,071 and \$151,120,864, respectively, over the same time period. As of September 30, 2014 and 2013, the Department was authorized to collect \$217.6 million in PFC revenues. The Department's PFC level was authorized at \$4.50 per enplaned passenger.

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

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

The Department of Airport's 2015 operating expense budget totals \$44 million, not including interfund transfers and reserves, which represents an increase of less than 1% from the prior year budget; additionally the Department expects actual expenditures will be somewhat less than the budgeted amount with expected expenditures to be within the range of \$40.8 to \$41.5 million. The Department continues its cost containment practices to insure the prior year's cost cutting measures continue to improve airline rates. Operating revenues are budgeted at \$64.85 million for fiscal year 2015, a decrease compared to actual 2014 operating revenues due decreased airline revenue from declining rates to airlines as discussed earlier.

Immediate capital project plans remain conservative with no major expansion of facilities. The Department will start a baggage system improvement that will be conducted in multiple phases over the next two to four years which will provide customer enhancements and in-line operations for baggage screening. This project will cost an estimated \$41 million and will be funded with PFC collections and Homeland Security grants.

## **Palm Beach County Department of Airports**

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

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The Fiscal 2015 terminal rates average \$53.05 per square foot; landing fees are \$1.208 per 1,000 lbs. of landed weight. The Fiscal 2014 terminal rates average \$63.93 per square foot; landing fees are \$1.393 per 1,000 lbs. of landed weight. Airline cost per enplanement for fiscal year 2015 is expected to decrease to approximately \$3.51 compared to \$7.06 for fiscal year 2014. Fiscal 2015 rates and cost per enplanement is shown net of estimated revenue sharing payouts to signatory airlines.

#### **Request for Information**

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

**Palm Beach County Department of Airports**

**Statements of Net Position  
September 30, 2014 and 2013**

<b>Assets</b>	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Pooled cash and cash equivalents	\$ 65,198,444	\$ 61,761,742
Nonpooled cash and cash equivalents	1,100	1,100
Restricted pooled cash and cash equivalents	305,615	323,636
Restricted cash with fiscal agent	15,068,971	14,549,308
Accounts receivable, less allowance for doubtful accounts of \$345,425 and \$458,848 in 2014 and 2013, respectively	3,204,601	2,458,316
Government grants receivable	3,486,071	1,746,661
Due from other funds	-	234,710
Current portion of other receivable	74,311	142,451
Inventories	1,343,985	1,427,974
Other current assets	1,040,973	1,023,791
<b>Total current assets</b>	<b>89,724,071</b>	<b>83,669,689</b>
<b>Noncurrent Assets</b>		
Restricted assets:		
Pooled cash and cash equivalents	15,308,285	13,934,163
Nonpooled cash and cash equivalents	52,068,109	42,514,874
Accounts receivable	1,807,124	1,742,515
<b>Total noncurrent restricted assets</b>	<b>69,183,518</b>	<b>58,191,552</b>
Capital assets:		
Land	101,070,428	100,114,058
Construction in progress	16,845,585	9,494,815
Depreciable capital assets, net of accumulated depreciation	246,612,844	258,458,752
<b>Total capital assets</b>	<b>364,528,857</b>	<b>368,067,625</b>
Other noncurrent assets:		
Other receivable, net of current portion and discount of \$2,137 and \$12,582 in 2014 and 2013, respectively	-	74,311
<b>Total other noncurrent assets</b>	<b>-</b>	<b>74,311</b>
<b>Total noncurrent assets</b>	<b>433,712,375</b>	<b>426,333,488</b>
<b>Total assets</b>	<b>\$ 523,436,446</b>	<b>\$ 510,003,177</b>
Deferred Outflow of Resources		
Deferred charge on refunding	\$ -	\$ 56,449

See Notes to Financial Statements.

	2014	2013
<b>Liabilities and Net Position</b>		
Current Liabilities		
Accounts and contracts payable	\$ 4,619,686	\$ 2,551,814
Compensated absences payable	65,768	52,753
Unearned revenue	649,835	142,995
Due to other funds	94,491	91,591
Due to other governments	82,827	123,268
Current portion of long-term liabilities	-	8,189
Other current liabilities	563,425	567,228
<b>Total current liabilities</b>	<b>6,076,032</b>	<b>3,537,838</b>
Current Liabilities Payable From Restricted Assets		
Accounts and contracts payable	24,461	70,921
Security deposits	283,866	255,975
Interest payable on revenue bonds	2,566,259	2,901,048
Current maturities of revenue bonds	12,500,000	11,645,000
<b>Total current liabilities payable from restricted assets</b>	<b>15,374,586</b>	<b>14,872,944</b>
Long-Term Liabilities		
Other long-term liabilities	5,249	42,569
Compensated absences payable	1,041,772	1,062,970
Revenue bonds payable (less current maturities)	86,275,872	98,864,506
<b>Total long-term liabilities</b>	<b>87,322,893</b>	<b>99,970,045</b>
<b>Total liabilities</b>	<b>108,773,511</b>	<b>118,380,827</b>
Net Position		
Net investment in capital assets	265,752,985	257,614,568
Restricted:		
Passenger facility charges	51,312,105	44,465,414
Debt service	12,802,087	13,220,549
Renewal and replacement	3,955,830	2,386,456
Operation and maintenance	7,303,077	7,380,319
Capital outlay	4,194,590	4,299,397
	<b>79,567,689</b>	<b>71,752,135</b>
Unrestricted	69,342,261	62,312,096
<b>Total net position</b>	<b>\$ 414,662,935</b>	<b>\$ 391,678,799</b>

**Palm Beach County Department of Airports**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2014 and 2013**

	2014	2013
Operating Revenues		
Rentals	\$ 26,349,279	\$ 25,535,316
Concessions	33,750,205	31,561,875
Landing fees	5,627,795	5,415,681
Other	2,865,183	2,860,379
<b>Total operating revenues</b>	<b>68,592,462</b>	<b>65,373,251</b>
Operating Expenses		
Employee compensation and benefits	10,873,560	10,621,220
General and administrative	7,382,320	7,323,111
Maintenance	6,221,826	5,598,221
Contracted security services	7,855,968	7,716,628
Contracted fire-rescue services	4,704,580	4,806,917
Utilities	3,747,404	3,707,205
<b>Total operating expenses</b>	<b>40,785,658</b>	<b>39,773,302</b>
<b>Operating income before depreciation and amortization</b>	<b>27,806,804</b>	<b>25,599,949</b>
Depreciation and Amortization	28,471,031	28,586,881
<b>Operating loss</b>	<b>(664,227)</b>	<b>(2,986,932)</b>
Nonoperating Revenues (Expenses)		
Investment income (loss)	915,784	(322,868)
Passenger facility charges	11,923,661	11,679,691
Interest expense	(5,132,523)	(5,802,100)
Gain (loss) on disposal of capital assets	52,482	(917,468)
Amortization of revenue bond costs	32,185	50,147
Other revenues (expenses)	377,895	333,062
<b>Total nonoperating revenues (expenses), net</b>	<b>8,169,484</b>	<b>5,020,464</b>
<b>Income before contributions and transfers</b>	<b>7,505,257</b>	<b>2,033,532</b>
Airport Improvement Capital Grants	8,511,199	6,281,814
Capital Contributions From Other Funds	-	200,570
Capital Contributions From Customers	7,000,000	-
Transfers From Other County Funds	25,000	238,171
Transfers to Other County Funds	(57,320)	(37,421)
<b>Change in net position</b>	<b>22,984,136</b>	<b>8,716,666</b>
Net Position at Beginning of Year, As Restated	391,678,799	382,962,133
Net Position at End of Year	<b>\$ 414,662,935</b>	<b>\$ 391,678,799</b>

See Notes to Financial Statements.

**Palm Beach County Department of Airports**

**Statements of Cash Flows**

**Years Ended September 30, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Cash received from customers	\$ 68,726,092	\$ 65,595,266
Cash payments to vendors for goods and services	(13,300,393)	(13,308,677)
Cash payments to employees for services	(10,949,506)	(10,637,634)
Cash payments to other funds	(16,743,022)	(16,896,220)
<b>Net cash provided by operating activities</b>	<b>27,733,171</b>	<b>24,752,735</b>
Cash Flows From Noncapital Financing Activities		
Transfer from (to) other county funds	(32,320)	200,750
Operating grants and other	377,895	333,062
<b>Net cash provided by noncapital financing activities</b>	<b>345,575</b>	<b>533,812</b>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(15,804,799)	(20,398,401)
Proceeds from sale of capital assets	52,482	55,916
Principal repayment on revenue bonds	(11,645,000)	(10,995,000)
Passenger facility charges received	11,862,001	11,668,041
Receipt of capital grants and reimbursements	6,731,348	7,646,881
Interest and fiscal charges paid	(5,467,312)	(6,118,212)
<b>Net cash (used in) capital and related financing activities</b>	<b>(14,271,280)</b>	<b>(18,140,775)</b>
Cash Flows From Investing Activities		
Receipt of repayments on other receivables	142,451	134,600
Interest and gains or losses on investments	915,784	(322,864)
<b>Net cash provided by (used in) investing activities</b>	<b>1,058,235</b>	<b>(188,264)</b>
<b>Net change in cash and cash equivalents</b>	<b>14,865,701</b>	<b>6,957,508</b>
Cash and cash equivalents at beginning of year (including for 2014 \$71,321,981 and for 2013 \$77,418,334 in restricted accounts)	<b>133,084,823</b>	126,127,315
Cash and cash equivalents at end of year (including for 2014 \$82,750,980 and for 2013 \$71,321,981 in restricted accounts)	<b>\$ 147,950,524</b>	<b>\$ 133,084,823</b>

(Continued)

**Palm Beach County Department of Airports**

**Statements of Cash Flows (Continued)  
Years Ended September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Loss to Net Cash Provided by		
Operating Activities:		
Operating loss	<u>\$ (664,227)</u>	<u>\$ (2,986,932)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	28,471,031	28,586,881
Provision for doubtful accounts	(113,423)	(147)
Changes in assets and liabilities:		
Accounts receivable	(635,811)	29,939
Due from other funds	234,710	112,895
Inventories	83,989	(183,686)
Other current assets	(17,182)	22,917
Accounts and contracts payable	(106,052)	(729,138)
Compensated absences payable	(8,183)	32,817
Unearned revenues	506,840	(12,894)
Due to other funds	2,900	(150,297)
Other liabilities	(49,312)	(61,695)
Security deposits	27,891	92,075
<b>Total adjustments</b>	<u><b>28,397,398</b></u>	<u><b>27,739,667</b></u>
<b>Net cash provided by operating activities</b>	<u><b>\$ 27,733,171</b></u>	<u><b>\$ 24,752,735</b></u>
Supplemental Disclosures of Noncash Capital and Related		
Financing Activities:		
Amortization of premium on bonds, including write-off	<u>\$ 88,634</u>	<u>\$ 159,183</u>
Amortization of deferred advance refunding loss	<u>\$ 56,449</u>	<u>\$ 109,036</u>
Capital assets in accounts and contracts payable	<u>\$ 2,127,464</u>	<u>\$ 3,412,770</u>
Contributions of capital assets from other funds	<u>\$ -</u>	<u>\$ 200,570</u>
Disposition of fully depreciated capital assets	<u>\$ 482,407</u>	<u>\$ 1,640,699</u>
Capital grants receivable	<u>\$ 1,739,410</u>	<u>\$ 1,427,817</u>
Passenger facility charges receivable	<u>\$ 1,794,430</u>	<u>\$ 1,732,769</u>
Contributed buildings and hangars from customer	<u>\$ 7,000,000</u>	<u>\$ -</u>

See Notes to Financial Statements.

## **Palm Beach County Department of Airports**

### **Notes to Financial Statements**

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

##### **A. Reporting Entity**

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

### Notes to Financial Statements

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

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

The Department implemented GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities", during fiscal year ended September 30, 2014. This statement reclassifies, as deferred outflows or deferred inflows of resources, certain items which were previously reported as assets and liabilities. The Department did not have any deferred outflows or inflows of resources as of September 30, 2014. For fiscal year 2013, they had a deferred outflow of resources for a debt refunding loss which was fully amortized by 2014. This statement also requires that debt issuance costs be expensed in the period incurred. This resulted in a restatement of the beginning net position. See Note 12 for further details.

##### E. Cash and Cash Equivalents and Investments

The Department of Airports considers all highly-liquid investments with maturities of three months or less when purchased, as well as its proportionate share of the County's internal investment pool, to be cash equivalents for purposes of the statement of net assets and the statement of cash flows. The County's internal investment pool is valued at a combination of fair value and amortized cost as more fully described in the notes to the County financial statements. The non-pooled money market funds and cash with fiscal agents-money market funds are stated at fair value, based on the last reported sales price for securities traded on a national exchange. Gain or loss on sales of investments is based on the specific identification method.

##### F. Accounts Receivable

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

##### G. Inventories

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

##### H. Capital Assets

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

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as “noise-impacted” surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration (FAA) Noise Abatement Grant Program for reimbursement. 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, 2014 and 2013, 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.

#### I. Intangible Assets

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

#### J. Security Deposits

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

#### K. Unearned Revenue

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

#### L. Restricted Assets

Certain assets are restricted in accordance with the provisions of the Bond Resolution (Resolution) and in accordance with FAA restrictions. Assets restricted under the Resolution which are designated primarily for payment of debt service are \$15,368,346 and \$16,178,047 at September 30, 2014 and 2013, respectively, and the retention of the operation and maintenance reserve of \$7,303,077 and \$7,380,319 at September 30, 2014 and 2013, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately \$2,048,086 and \$2,274,698 at September 30, 2014 and 2013, 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 \$51,312,105 and \$44,465,414 at September 30, 2014 and 2013, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

##### M. Amortization 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.

##### N. 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 \$5,132,523 and \$5,802,100 for the fiscal years ended September 30, 2014 and 2013, respectively, none of which was recorded as capitalized interest in either fiscal year as the construction activity conducted by the Airports is funded through capital grants and/or passenger facility charges.

##### O. Compensated Absences

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

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

##### P. Passenger Facility Charges

In 1994, the FAA began a program allowing Airports to collect a \$3 Passenger Facility Charge (PFC) per enplaned passenger. The monies collected under this program must be used for capital-related improvements to the Airport facilities and all expenditures of these funds must be preapproved by the FAA. PFC revenue is treated as non-operating revenue in the financial statements. On October 9, 2007, the Federal Aviation Administration approved an amendment to the PFC collection authorization increasing the PFC fee from \$3.00 to \$4.50 per enplaned passenger effective July 2008. Total collection authority for the Department is \$217.6 million. Cumulative PFC expenditures through September 30, 2014, total \$156.2 million.

##### Q. Capital Contributions

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

##### R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
County Internal Investment Pool	\$ 80,812,344	\$ 76,019,541
Non-pooled Money Market Funds	52,068,109	42,514,874
Cash with fiscal agent	15,068,971	14,549,308
Petty cash	1,100	1,100
<b>Total</b>	<b>\$ 147,950,524</b>	<b>\$ 133,084,823</b>
Amounts as presented in the financial statements are as follows:		
Unrestricted pooled cash and cash equivalents	\$ 65,198,444	\$ 61,761,742
Unrestricted nonpooled cash and cash equivalents	1,100	1,100
	<u>65,199,544</u>	<u>61,762,842</u>
Restricted pooled cash and cash equivalents	15,613,900	14,257,799
Restricted nonpooled cash and cash equivalents	52,068,109	42,514,874
Restricted cash with fiscal agent	15,068,971	14,549,308
	<u>82,750,980</u>	<u>71,321,981</u>
<b>Total</b>	<b>\$ 147,950,524</b>	<b>\$ 133,084,823</b>

#### 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 billion and \$1.294 billion as of September 30, 2014 and 2013, respectively, of which approximately 37% and 58%, 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.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

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

As of September 30, 2014, the Department of Airports had \$15,068,971 on deposit with a fiscal agent as required by the bond documents and \$52,068,109 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	\$ 15,068,971	100%	Less than 1 yr	AAAm
Wells Fargo Advantage Heritage Fund Institutional Class	\$ 52,068,109	100%	Less than 1 yr	AAAm

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

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

#### Interest Rate Risk

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

#### Credit Risk

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

#### Custodial Credit Risk

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

#### Concentration of Credit Risk

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

##### Investments

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

#### Note 3. Capital Assets

	Balance at September 30,					Balance at September 30,
	2013	Additions	Retirements	CIP Transfer		2014
Depreciable capital assets						
Buildings	\$ 361,426,437	\$ 7,000,000	\$ (36,245)	\$ 2,968,595		\$ 371,358,787
Improvements other than buildings	235,168,820	48,114	(106,633)	5,570,893		240,681,194
Furniture, fixtures and equipment	41,572,681	905,460	(339,529)	132,059		42,270,671
Intangible – easement rights	13,754,957	-	-	-		13,754,957
<b>Total depreciable capital assets</b>	<b>651,922,895</b>	<b>7,953,574</b>	<b>(482,407)</b>	<b>8,671,547</b>		<b>668,065,609</b>
Less accumulated depreciation						
Buildings	199,258,558	15,311,650	(36,245)	-		214,533,963
Improvements other than buildings	159,436,629	9,612,786	(106,633)	-		168,942,782
Furniture, fixtures and equipment	30,578,038	3,202,719	(339,529)	-		33,441,228
Intangible – easement rights	4,190,918	343,874	-	-		4,534,792
<b>Total accumulated depreciation</b>	<b>393,464,143</b>	<b>28,471,029</b>	<b>(482,407)</b>	<b>-</b>		<b>421,452,765</b>
<b>Depreciable capital assets, net of accumulated depreciation</b>	<b>258,458,752</b>	<b>(20,517,455)</b>	<b>-</b>	<b>8,671,547</b>		<b>246,612,844</b>
Nondepreciable capital assets						
Land	100,114,058	234,170	-	722,200		101,070,428
Construction in progress	9,494,815	16,828,735	-	(9,477,965)		16,845,585
<b>Total capital assets</b>	<b>\$ 368,067,625</b>	<b>\$ (3,454,550)</b>	<b>\$ -</b>	<b>\$ (84,218)</b>		<b>\$ 364,528,857</b>

**Palm Beach County Department of Airports**

**Notes to Financial Statements**

**Note 3. Capital Assets (Continued)**

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

**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 \$2,279,883 and \$1,975,284 for the years ended September 30, 2014 and 2013, 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 2016 resulting in a decline in minimum future receipts.

**Palm Beach County Department of Airports**

**Notes to Financial Statements**

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**Note 4. Leases, as Lessor (Continued)**

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

Year Ending September 30,

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2015	\$ 32,974,071
2016	32,366,740
2017	21,382,247
2018	21,249,011
2019	21,069,350
Thereafter	65,056,038
	<u>\$ 194,097,457</u>

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Buildings	<b>\$ 249,768,457</b>	\$ 239,838,617
Less accumulated depreciation	<b>166,427,547</b>	157,728,583
	<b>83,340,910</b>	82,110,034
Land	<b>9,158,963</b>	9,168,241
<b>Property held for lease, net</b>	<b>\$ 92,499,873</b>	<b>\$ 91,278,275</b>

**Palm Beach County Department of Airports**

**Notes to Financial Statements**

**Note 5. Revenue Bonds Payable and Long-Term Obligations**

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Series 2006A Revenue Bonds, principal due annually, in various amounts, beginning October 1, 2021 through October 1, 2036, with interest from 4.7% to 5.0% payable semi-annually on October 1 and April 1.	<b>\$ 69,080,000</b>	\$ 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.	<b>16,855,000</b>	16,855,000
Series 2002 Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semi-annually on October 1 and April 1.	<b>12,500,000</b>	24,145,000
	<b>98,435,000</b>	110,080,000
<b>Less current portion</b>	<b>12,500,000</b>	11,645,000
	<b>85,935,000</b>	98,435,000
Unamortized bond premium	<b>340,872</b>	429,506
Unamortized loss on refunding	-	(56,449)
<b>Long-term portion</b>	<b>\$ 86,275,872</b>	<b>\$ 98,808,057</b>

**Series 2006 A and B**

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

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

Accordingly, the Department has pledged for the payment of principal and interest all (Airport System) Net Revenues available for Debt Service, and all funds and accounts established by the Bond Resolution. The full faith and credit of the County is not pledged for the payment of Airport indebtedness. Debt service coverage in 2014 was 1.83 times the aggregate debt service. Principal and interest paid for the current year and Net Revenues Available for Debt Service were approximately \$17.1 and \$32.9 million, respectively.

#### **Series 2002**

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

A portion of this Series amounting to \$14,740,000 was defeased during fiscal year 2006 by placing monies with an escrow depository. The balance of the defeased portion of this Series as of September 30, 2014, is \$4,000,000.

**Palm Beach County Department of Airports**

**Notes to Financial Statements**

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

A summary of changes in long-term obligations for the years ended September 30, 2014 and 2013 is as follows:

	Balance at October 1,				Balance at September 30,	Due Within
	2013	Additions	Retirements	Reductions	2014	One Year
Revenue bonds:						
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	24,145,000	-	-	11,645,000	12,500,000	12,500,000
OPEB	42,569	-	-	37,320	5,249	-
Termination benefits	8,189	-	-	8,189	-	-
Compensated absences payable	1,115,723	-	-	8,183	1,107,540	65,768
	<u>\$ 111,246,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,698,692</u>	<u>99,547,789</u>	<u>\$ 12,565,768</u>
Less current maturities					12,565,768	
Long-term portion					86,982,021	
Add unamortized bond premium					340,872	
<b>Total</b>					<u>\$ 87,322,893</u>	
	Balance at October 1,				Balance at September 30,	Due Within
	2012	Additions	Retirements	Reductions	2013	One Year
Revenue bonds:						
Series 2006A	\$ 69,080,000	\$ -	\$ -	\$ -	\$ 69,080,000	\$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	35,140,000	-	-	10,995,000	24,145,000	11,645,000
OPEB	68,457	-	-	25,888	42,569	-
Termination benefits	53,481	-	-	45,292	8,189	8,189
Compensated absences payable	1,082,906	32,817	-	-	1,115,723	52,753
	<u>\$ 122,279,844</u>	<u>\$ 32,817</u>	<u>\$ -</u>	<u>\$ 11,066,180</u>	<u>111,246,481</u>	<u>\$ 11,705,942</u>
Less current maturities					11,705,942	
Long-term portion					99,540,539	
Add unamortized bond premium					429,506	
Less unamortized loss on refunding					(56,449)	
<b>Total</b>					<u>\$ 99,913,596</u>	

## Palm Beach County Department of Airports

### Notes to Financial Statements

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

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

Year Ending September 30,	Principal	Interest	Total
2015	\$ 12,500,000	\$ 4,773,143	\$ 17,273,143
2016	2,425,000	4,342,170	6,767,170
2017	2,565,000	4,194,840	6,759,840
2018	2,715,000	4,038,948	6,753,948
2019	2,880,000	3,873,756	6,753,756
2020-2024	15,475,000	16,792,583	32,267,583
2025-2029	18,685,000	12,546,775	31,231,775
2030-2034	23,845,000	7,255,525	31,100,525
2035-2037	17,345,000	1,256,930	18,601,930
	<u>\$ 98,435,000</u>	<u>\$ 59,074,670</u>	<u>\$ 157,509,670</u>

#### Note 6. Other Receivable

In May 2001, the County entered into termination agreements with Merrill Lynch Capital Services (MLCS) to terminate its interest rate swap agreements. On July 3, 2002 the Department of Airports paid \$2,477,800 to terminate the agreement related to the Series 2002 bonds. In conjunction with the termination of the swap agreement related to the Series 2002 bonds, MLCS agreed to pay the Department of Airports \$76,488 on each October 1 and April 1 beginning October 1, 2002, and ending October 1, 2014. These future payments were discounted at 5.75% and the net amount of \$1,312,000 (payments to be received totaling \$1,912,200 less discount of \$600,200) was recorded as a receivable and a reduction of the loss on swap termination. At September 30, 2014, the net receivable was \$0 (net of current portion of \$74,311 and discount of \$2,137); at September 30, 2013, the net receivable was \$216,762 (net of current portion of \$142,451 and discount of \$12,582).

#### Note 7. Defined Benefit Pension Plan

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

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Florida Department of Management Services, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, Florida 32399-1560 or by calling 1.850.488.5706.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### **Note 7. Defined Benefit Pension Plan (Continued)**

**Funding policy:** Effective July 2011, plan members are required to contribute 3% of salary cost to the System. The Department of Airports is required to contribute at an actuarially determined rate, which effective July 2014 is 7.37 of annual covered payroll, for a total contribution of 10.37%. The contribution requirement for plan members and participating governments is established by State Statute. The Department of Airports' contributions to the System for the years ended September 30, 2014, 2013 and 2012, were approximately \$632,000, \$474,000, and \$393,000, respectively, and were equal to the required contributions for each year.

#### **Note 8. Related Party Transactions**

The Department of Airports reimburses the General Fund of Palm Beach County for an allocated portion of certain support department costs which include such services as legal, administrative, fiscal, engineering, purchasing, personnel, internal audit and communication costs. The Department of Airports is also charged for the cost of services provided by the Motor Pool, Casualty Self-Insurance, Workers' Compensation and Data Processing Internal Service Funds of the County. The total cost for the above services was approximately \$4.7 million and \$4.5 million for the years ended September 30, 2014 and 2013, respectively. In addition, the Department of Airports pays solid waste disposal fees to the Solid Waste Authority of Palm Beach County, a dependent special district and component unit of Palm Beach County, Florida. Fees paid to the Solid Waste Authority for the years ended September 30, 2014 and 2013, totaled approximately \$417,000 and \$424,000, respectively. At September 30, 2013, there was a receivable from other funds and departments of Palm Beach County of \$234,710. At September 30, 2014 and 2013, \$94,491 and \$91,591, respectively, was payable to other Palm Beach County funds and departments.

The Department of Airports also contracts directly with the Palm Beach County Sheriff's Department for security services at Palm Beach International Airport. The cost of these services from the Sheriff's Department was approximately \$7.6 million and \$7.5 million for the years ended September 30, 2014 and 2013, respectively. The Department of Airports also contracts with the Fire-Rescue Department for fire-rescue service at Palm Beach International Airport. The cost of these services was approximately \$4.7 million and \$4.8 million for the years ended September 30, 2014 and 2013, respectively.

#### **Note 9. Major Customers**

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

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

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 9. Major Customers (Continued)

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

Airline	Percent of Activity Based Upon Enplaned Passengers	
	Years Ended September 30,	
	2014	2013
Delta	26.4%	25.2%
Jet Blue	24.4%	25.9%
US Airways	14.0%	14.3%
Southwest	12.1%	13.8%
United	10.5%	11.0%
American	8.8%	6.6%
Others	3.8%	3.2%
	<b>100.0%</b>	<b>100.0%</b>

#### Note 10. Commitments and Contingencies

##### Litigation

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

##### Grants

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

##### Risk Management

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

The Department of Airports participates in the County-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department of Airports by the County self insurance fund are based on actuarial estimates of the amounts needed to pay prior and current year claims. Premiums paid by the department were \$1,984,000 and \$1,955,000 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

## Palm Beach County Department of Airports

### Notes to Financial Statements

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#### Note 10. Commitments and Contingencies (Continued)

##### Contract Commitments

The Department of Airports has several uncompleted design and construction contracts for improvements to the airport system. At September 30, 2014 and 2013, the remaining commitment on these uncompleted contracts was \$10,889,917 and \$10,512,492, respectively, which is summarized as follows:

	Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
2014	\$ 46,383,843	\$ 35,382,432	\$ 111,494	\$ 10,889,917
2013	\$ 67,630,653	\$ 57,079,806	\$ 38,355	\$ 10,512,492

#### Note 11. Other Post-Employment Benefits

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

Pursuant to Section 112.0801, Florida Statutes, the County is mandated to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100% of the blended (active and retiree combined) equivalent premium rates. The blended rates provide an implicit subsidy for retirees because on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. 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 Department of Airports**

**Notes to Financial Statements**

**Note 11. Other Post-Employment Benefits**

As determined by an actuarial valuation, the County records a Net OPEB obligation in its government-wide financial statements related to the implicit subsidy. The Department participates in the County's plan on an allocation basis, which is approximately 10% – 15% of the County's obligation. See the County's Comprehensive Annual Financial Report for disclosures relating to the funding policy, funding status, funding progress and actuarial methods and assumptions. The approximate portion of the County's actuarial accrued liability and unfunded actuarial accrued liability attributed to the Airport is estimated at \$942,000 and \$560,000 for September 30, 2014 and 2013, respectively. The covered payroll is approximately \$8 million and \$7.8 million for fiscal years 2014 and 2103, respectively. Based on the Net OPEB allocation applicable to the Department, the following table reflects the components of the annual OPEB cost and obligation for the years ended September 30, 2014 and 2013:

	2014	2013
Annual required contribution (ARC)	\$ 23,000	\$ 41,000
Interest on net OPEB obligation	(1,772)	(1,291)
Adjustment to annually required contributions	1,535	1,130
<b>Annual OPEB cost</b>	<b>22,763</b>	<b>40,839</b>
Contributions made	(60,083)	(66,727)
<b>Change in net OPEB obligation</b>	<b>(37,320)</b>	<b>(25,888)</b>
Net OPEB obligation – beginning of year	42,569	68,457
<b>Net OPEB obligation – end of year</b>	<b>\$ 5,249</b>	<b>\$ 42,569</b>

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

**Note 12. Prior Period Adjustments**

**Restatement for Adoption of New Accounting Standard**

The Department of Airports implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities" in Fiscal Year 2014. GASB 65 implementation directs any debt issuance cost previously reported as deferred charge to be reclassified as an expense in the period incurred. Therefore a restatement of the beginning net position is necessary, so it must be pushed back and applied to the first year presented in these comparative financial statements. This change was applied as of October 1, 2012 and therefore also eliminated the amortization of issuance costs from the change in net position in fiscal year 2013, as shown below:

	October 1, 2013	October 1, 2012
Net Position, as originally reported	\$ 392,898,492	\$ 384,285,029
GASB 65 Reclassification	(1,219,693)	(1,322,896)
Net Position, as restated	<b>\$ 391,678,799</b>	<b>\$ 382,962,133</b>

**Fiscal Year Ended September 30, 2013**

Change in net position, as previously reported	\$ 8,613,463
Elimination of amortization of issuance costs	103,203
Change in net position, as restated	<b>\$ 8,716,666</b>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of net position of the Palm Beach County, Florida Department of Airports as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and have issued our report thereon dated March 26, 2015.

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

*McGladrey LLP*

West Palm Beach, Florida  
March 26, 2015



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

The Honorable Board of County Commissioners  
Palm Beach County, Florida

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying statement of net position of the Palm Beach County, Florida Department of Airports (the Department) as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and have issued our report thereon dated March 26, 2015.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*McGladrey LLP*

West Palm Beach, Florida  
March 26, 2015