

FINANCIAL STATEMENTS AND OTHER FINANCIAL  
INFORMATION

Palm Beach County Department of Airports  
For the Years Ended September 30, 2004 and 2003

Palm Beach County Department of Airports

Financial Statements and  
Other Financial Information

Years Ended September 30, 2004 and 2003

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## Report of Independent Certified Public Accountants

The Honorable Board of County Commissioners  
Palm Beach County, Florida

We have audited the accompanying financial statements of the Palm Beach County Department of Airports as of and for the years ended September 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Palm Beach County Department of Airports' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Department's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Palm Beach County Department of Airports' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above present only the Palm Beach County Department of Airports, an enterprise fund of Palm Beach County, Florida, and are not intended to present fairly the financial position of Palm Beach County, Florida, and the changes in financial position and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palm Beach County Department of Airports as of September 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated January 6, 2005 on our consideration of the Palm Beach County Department of Airports' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to

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

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Palm Beach County Department of Airports financial statements. The accompanying other financial information is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



January 6, 2005

# Palm Beach County Department of Airports

## Management's Discussion and Analysis

September 30, 2004

The following Management 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, 2004. The information contained in this MD & A should be considered in conjunction with the information combined 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 to maturity and a schedule of Department payments to other governmental units for goods and services.

### Airport Activities and Highlights

Fiscal year 2004 results showed a 9.50% increase in total passenger traffic. Enplanements for the fiscal year totaled 3,216,772, representing the largest enplanement activity in any fiscal year period.

The following table shows a summary of various activities:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Enplanements	<b>3,216,772</b>	2,937,681	2,694,214
% Increase/(Decrease)	<b>9.50%</b>	9.04%	(11.79%)
Air Carrier Operations	<b>68,497</b>	64,661	60,790
% Increase/(Decrease)	<b>5.90%</b>	6.37%	(17.01%)
Landed Weight	<b>4,226,923</b>	4,073,377	3,809,258
% Increase/(Decrease)	<b>3.77%</b>	6.93%	(11.35%)
Cargo Tons	<b>20,175</b>	20,905	19,511
% Increase/(Decrease)	<b>(3.49%)</b>	7.14%	(15.10%)
Parking (Transactions)	<b>1,293,063</b>	1,236,017	1,171,929
% Increase/(Decrease)	<b>4.62%</b>	5.46%	(15.88%)

## Financial Operations Highlights

The overall financial position improved due to increased traffic and increased fees. Financial impacts are highlighted as follows:

- Operating revenues rose by 10.3%, increasing from \$47.7 million to \$52.7 million. Components include an increase in concession revenues of \$2.7 million, which includes parking, car rental, and terminal concessions. Increased concessions revenue was due to increased passenger traffic and an increase in parking rates during fiscal year 2004. Rental revenue increased \$1.38 million due to increased rental rates.
- Operating expenses increased by 4.5%, totaling \$35.8 million in fiscal year 2004. Employee compensation increased by 10.2%, totaling \$9.33 million for the year. Some of the additional compensation cost was due to hurricanes Frances and Jeanne. Overtime resulting from these events totaled approximately \$221,000. Excluding hurricane overtime, employee compensation increased 7.6%. See Hurricane Events section for a full disclosure on these impacts.
- The change in net assets for fiscal year 2004 totaled \$21.0 million, an increase of 50.6% over the prior year. Operating income for fiscal year 2004 totaled \$1.10 million compared to a \$2.34 million loss in 2003.

## Summary of Revenue and Expenses

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues	\$ 52,652,831	\$ 47,730,386	\$ 44,647,746
Operating Expenses	<u>35,827,994</u>	34,282,865	32,266,025
Excess Before Depreciation and Other Non-Operating Income and Expenses	<b>16,824,837</b>	13,447,521	12,381,721
Depreciation and Amortization	<u>15,720,084</u>	15,785,313	15,635,049
Operating Income (Loss)	<b>1,104,753</b>	(2,337,792)	(3,253,328)
Other Non-Operating Income and Expenses, Net, Including Capital Contributions and Transfers	<u>19,866,588</u>	16,263,462	16,375,687
Change in Net Assets	<u><u>\$ 20,971,341</u></u>	\$ 13,925,670	\$ 13,122,359

## Financial Position Summary

Net assets may serve over time as a useful indicator of the Department's financial position. The Department's assets exceeded liabilities by approximately \$261 million at September 30, 2004 and \$240 million at September 30, 2003. A condensed summary of the Department's net assets at September 30 is shown below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current and Other Assets	<b>\$ 115,092,002</b>	\$ 109,695,544	\$ 102,762,011
Capital Assets	<b>288,640,890</b>	287,911,781	269,356,230
Total Assets	<b>403,732,892</b>	397,607,325	372,118,241
Liabilities:			
Current and Other Liabilities	<b>20,641,185</b>	23,384,908	17,242,925
Long-Term Debt Outstanding	<b>121,912,713</b>	134,014,764	137,534,354
Total Liabilities	<b>142,553,898</b>	157,399,672	154,777,279
Net Assets:			
Invested in Capital Assets, Net of Debt	<b>156,988,995</b>	143,034,391	122,499,755
Restricted	<b>60,926,844</b>	54,675,801	52,117,417
Unrestricted	<b>43,263,155</b>	42,497,461	51,664,811
Total Net Assets	<b>\$ 261,178,994</b>	\$ 240,207,653	\$ 226,281,983

The largest portion of the Department's net assets each year (60% at September 30, 2004) represents its investments in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Department uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Department's net assets (23% at September 30, 2004) represents restricted assets that are subject to external restrictions on how they can be used under bond resolution covenants and Passenger Facility Charge regulations. The remaining unrestricted net assets (17% at September 30, 2004) may be used to meet any of the Department's ongoing obligations.

## Significant Events-Hurricane Frances and Jeanne

During the month of September 2004, the Department was significantly impacted by hurricane Frances and Jeanne. Palm Beach International (PBI) and all three general aviation airports were impacted by hurricane force winds. As a result, PBI was closed to commercial activity for approximately 3 days in total for both events. Revenue losses were relatively insignificant to the year's final results.

Physical damage to airport facilities under the Department’s responsibilities is estimated at \$4.5 million. Approximately half of the damage was to PBI, with the largest single impact to concourse C. Concourse C suffered from the loss of roofing materials due to high winds causing rainwater damage to the interior. Both the roof and interior were repaired within 60 days of the event under emergency procurement provisions. Costs related to the hurricanes actually incurred prior to September 30, 2004 related solely to payroll costs for overtime of approximately \$221,000.

The Department anticipates 90% or more of hurricane damage costs to be reimbursed by insurance, grants, or FEMA payments. In November, the Federal Aviation Administration provided a grant totaling \$3,052,565 for hurricane repairs. Insurance proceeds and FEMA reimbursements should provide most of the remaining funding, however, no commitments have been made by either of these sources.

### **Airline Signatory Rates and Charges**

The Department and certain airlines negotiated an Airline-airport Use and Lease agreement (the Agreement) effective October 1, 2000 for five years, which in part establishes how the signatory airlines will be assessed rates and charges for the use of PBI. Landing fees and terminal rental rates are calculated for each fiscal year. Signatory airlines receive a 10% rebate of landing fees for landing fees paid in the prior fiscal year.

The Agreement serves as the basis for calculating landing fees and terminal rental rates. All cost associated with operation, maintenance, and debt service of the airfield and terminal are recorded in the respective cost centers. Landed weight and rentable square footage serve as the units for landing fees and terminal rents, respectively. A revenue sharing component of the methodology credits 50% of the prior year’s profitability to the two cost centers.

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

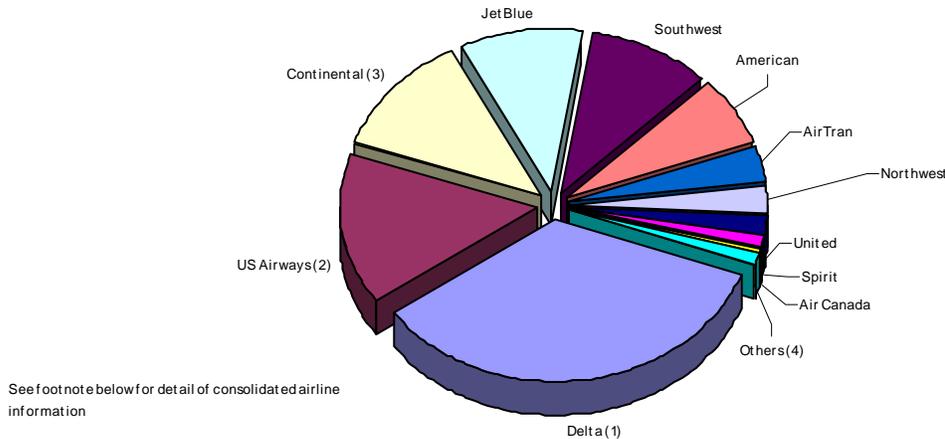
Rates and charges for the past three fiscal years are as follows:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Landing Fee (per 1,000 lbs MGLW)	<b>\$ 0.999</b>	\$ 0.834	\$ 0.726
Average Terminal Rate (per square foot)	<b>42.03</b>	39.98	38.90
Apron Fee Rental (per lineal foot)	<b>184.20</b>	176.60	177.26
Loading Bridge Rental (annual rate)	<b>31,177</b>	31,129	33,022
 Airline Cost per Enplanement	 <b>5.84</b>	 5.90	 5.86

## Airline Market Share and Passenger Information

Total passenger traffic is presented below for fiscal year 2004 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2003.

**Airline Market Share 2004**



**Total Passengers by Airline**

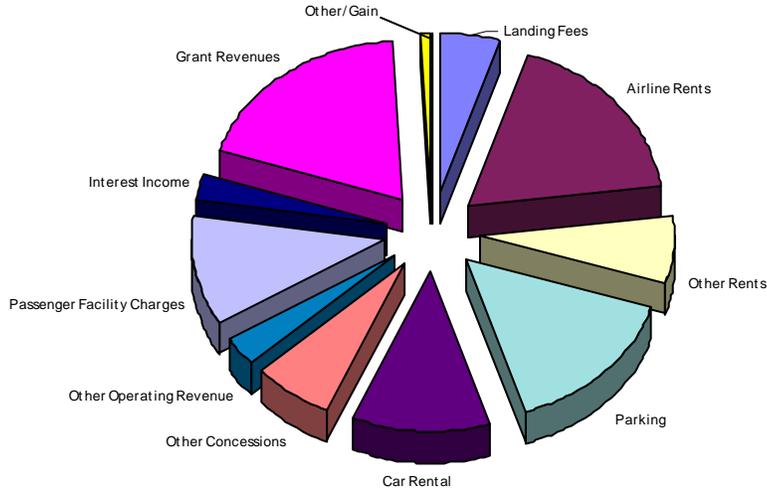
	2004	Change from 2003	% Change from 2003
Delta <sup>(1)</sup>	2,237,169	26,097	1%
US Airways <sup>(2)</sup>	949,650	20,794	2%
Continental <sup>(3)</sup>	786,640	11,543	1%
JetBlue	641,139	118,360	23%
Southwest	640,979	82,068	15%
American	452,320	153,595	51%
AirTran	236,973	103,361	77%
Northwest	175,121	-9,219	-5%
United	120,911	-1,199	-1%
Spirit	72,336	11,680	19%
Air Canada	35,584	-196	-1%
Others <sup>(4)</sup>	70,089	39,935	132%
<b>Total</b>	<b>6,418,911</b>	<b>556,819</b>	<b>9%</b>

### Airline Consolidation Information:

- <sup>(1)</sup> Delta includes Delta, Song, Comair, and Chataqua
- <sup>(2)</sup> US Airways includes US Airways, Henson, and Mesa
- <sup>(3)</sup> Continental includes Continental and Gulfstream
- <sup>(4)</sup> Others include Atlantic Southeast, Bahamas Air, Air Midwest, Planet Airways, and Britannia

## Revenues

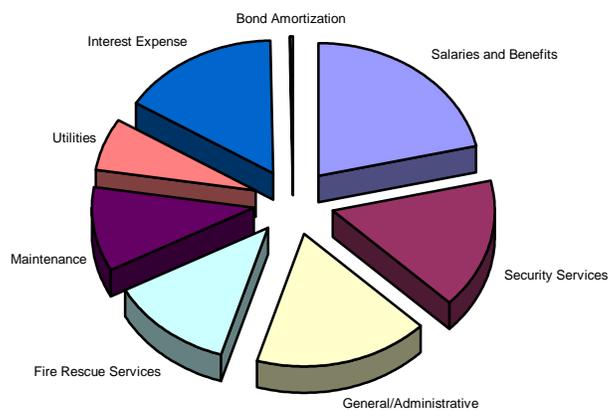
The following chart and table summarizes revenues for the year ended September 30, 2004:



	2004	Percent of Total	Increase/ (Decrease) from 2003	% Increase/ (Decrease) from 2003
<b>Operating:</b>				
Landing Fees	\$ 4,066,044	5%	\$ 802,916	25%
Airline Rents	14,166,014	18%	517,824	4%
Other Rents	5,179,543	7%	866,930	20%
Parking	12,288,977	15%	2,402,798	24%
Car Rental	9,158,456	12%	(462,096)	-5%
Other Concessions	5,287,525	7%	763,643	17%
Other Operating Revenue	2,506,272	3%	30,430	1%
<b>Total Operating Revenues</b>	<b>52,652,831</b>	<b>66%</b>	<b>4,922,445</b>	<b>10%</b>
<b>Non-Operating, Capital Contributions and Transfers:</b>				
Passenger Facility Charges	8,821,781	11%	1,235,814	16%
Investment Income	2,024,732	3%	(239,099)	-11%
Capital Contributions and Grant Revenues	14,801,546	19%	1,226,432	9%
Gain on Disposal of Assets	738,906	1%	662,512	867%
Other Revenues	—	0%	(33,729)	-100%
Transfers in	358,500	0%	358,500	100%
<b>Total Non-Operating Revenues, Capital Contributions and Transfers</b>	<b>26,745,465</b>	<b>34%</b>	<b>3,210,340</b>	<b>14%</b>
<b>Total Revenues, Capital Contributions and Transfers</b>	<b>\$ 79,398,296</b>	<b>100%</b>	<b>\$ 8,132,785</b>	<b>11%</b>

## Expenses

The following chart and table summarizes expenses for the year ended September 30, 2004:



	2004	Percent of Total	Increase/ (Decrease) from 2003	% Increase/ (Decrease) from 2003
Operating:				
Salaries and Benefits	\$ 9,328,065	16%	\$ 861,590	10%
Security Services	6,661,144	11%	(193,526)	-3%
General/Administrative	7,572,256	13%	(126,615)	-2%
Fire Rescue Services	5,378,847	9%	645,877	14%
Maintenance	4,131,153	7%	(43,712)	-1%
Utilities	2,756,529	5%	401,515	17%
Total Operating	35,827,994	61%	1,545,129	5%
Depreciation	15,720,084	27%	(65,229)	-1%
Non-Operating				
Interest Expense	6,740,887	12%	(400,501)	-6%
Bond Amortization	134,730	0%	4,455	3%
Other	3,260	0%	3,260	100%
Total Non-Operating	6,878,877	12%	(392,786)	-5%
Total Expenses	\$ 58,426,955	100%	\$ 1,087,114	2%

## 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.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash Flow from Operating Activities	<b>\$ 15,477,803</b>	\$ 12,867,686	\$ 7,036,669
Cash Flow from Non-Capital Financing Activities	<b>358,500</b>	524,711	1,537,500
Cash Flow from Capital and Related Financing Activities	<b>(13,516,593)</b>	(18,497,783)	(13,158,121)
Cash Flow from Investing Activities	<b>2,604,481</b>	2,364,937	5,283,361
Net Change in Cash and Cash Equivalents	<b>4,924,191</b>	(2,740,449)	699,409
Cash and Cash Equivalents Beginning of Year	<b>79,081,177</b>	81,821,626	81,122,217
End of Year	<b><u>\$ 84,005,368</u></b>	<u>\$ 79,081,177</u>	<u>\$ 81,821,626</u>

The Department's available cash and cash equivalents increased from \$79.1 million to \$84.0 million from September 30, 2003 to September 30, 2004.

## Financial Statements and Reporting Entity

The Department's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated in the United States by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. Revenues are recognized when earned and expenses are recognized when incurred. The Department operates the Airports as an enterprise fund of Palm Beach County. An enterprise fund is used to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges by users of such services. See the notes to the financial statements for a summary of the Department's significant accounting policies.

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

## Capital Acquisitions and Construction Activities

During 2004, the Department expended \$15.6 million on capital activities. During 2004, completed projects totaling \$8.8 million were transferred from construction-in-progress to their respective capital accounts. The major completed projects and acquisitions were:

North County T-Hangers	\$5.0 million
North County Aprons	\$3.8 million
Land Acquisition	\$2.3 million

In general, acquisitions are funded using a variety of financing sources, including Federal Grants, States Grants, Airport revenues, Passenger Facility Charges, debt issuance, and Revenue Bonds. No new debt or revenue bonds were issued in fiscal 2004, and the Department has no plans for such issuance in fiscal 2005.

## Long Term Debt

The Department had outstanding long term debt relating to revenue refunding bonds of \$120.9 million and \$128.5 million as of September 30, 2004 and 2003. Both amounts are net of any current maturities, unamortized premiums, or unamortized discounts. The following table reflects the debt activities pertaining to the bonds that occurred during fiscal year 2004:

	<b>Total Outstanding 10/1/2003</b>	<b>Bonds Issued</b>	<b>Principal Paid</b>	<b>Retired</b>	<b>Total Outstanding 9/30/2004</b>
Revenue Refunding Bonds:					
Series 2001	\$ 76,330,000	-	\$ 8,010,000	-	\$ 68,320,000
Series 2002	60,150,000	-	-	-	60,150,000
	<u>\$ 136,480,000</u>	<u>-</u>	<u>\$ 8,010,000</u>	<u>-</u>	<u>\$ 128,470,000</u>
Less Current Maturities					<u>\$ 8,410,000</u>
Long-Term Portion					<u>120,060,000</u>
Add Unamortized Premium					<u>4,439,806</u>
Less Unamortized Loss on Refunding					<u>(3,589,464)</u>
Total					<u><u>\$ 120,910,342</u></u>

## 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 A3. The Department's ratings have remained relatively stable due to its relatively strong cash position, improving airline competition, competitive airline fees, and diversified customer base. On an insured basis the rating are as follows: Moody's, S & P, and Fitch, Aaa, AAA, and AAA, respectively.

## **Passenger Facility Charges**

The Department, as of September 30, 2004 has collected \$89.5 million in Passenger Facility Charges (PFC) Revenues, including interest on PFC cash balances, since the inception of the program in April 1, 1994. The Department has capital expenditures totaling \$62.3 million over the same time period. As of September 30, 2004, the Department was authorized to collect \$109.4 million in PFC revenues.

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

Palm Beach County has seen significant growth in population and housing.

The County has announced an agreement with Scripps, a bio-technology research concern, to base a significant portion of their research operations in Palm Beach County. It is expected significant investments by various bio-tech related companies will be made over the following years.

Palm Beach County Tourism has remained strong and continues to show increased occupancy rates in local hotels. Completion of the Convention center will likely attract more tourism/convention trade to the County. January 2005 hotel occupancy rates were 82.7%, the highest in the State of Florida, according to a Smith Travel Report. The County's average daily room rate was \$164.82, which was also the highest in the State of Florida.

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

The Department of Airport's 2005 operating budget totals \$38.5 million, an increase of 5.8% over the prior year budget. Part of this increase is due to Fire Rescue service increase of 10% over the prior year and continued increases in security costs. Budget projections were reflected in increased airline rates for the 2005 budget year. Average terminal rates are \$55.47 per square foot and \$1.239 per 1000 lbs. of landed weight.

## **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, Airport Fiscal Director, 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).

Respectfully submitted,

Mike Simmons, CPA  
Airports Fiscal Director

Palm Beach County Department of Airports

Statement of Net Assets

	<b>September 30</b>	
	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24,560,756	\$ 27,160,760
Accounts receivable, less allowance for doubtful accounts of \$300,000 and \$296,932 in 2004 and 2003, respectively	2,065,774	1,315,569
Government grants receivable	1,255,213	1,559,614
Current portion of other receivable	85,524	80,811
Inventories	905,434	883,938
Other current assets	55,488	58,218
<b>Total current assets</b>	<b>28,928,189</b>	<b>31,058,910</b>
Restricted assets:		
Cash and cash equivalents	59,444,612	51,920,417
Investments	14,401,413	14,879,586
Interest receivable	208,324	229,089
Accounts receivable, less allowance for doubtful accounts of \$3,000 and \$1,160 in 2004 and 2003, respectively	15,474	44,750
<b>Total restricted assets</b>	<b>74,069,823</b>	<b>67,073,842</b>
Capital assets:		
Land	124,771,003	122,489,483
Depreciable capital assets, net of accumulated depreciation	141,084,390	146,674,470
Construction in progress	22,785,497	18,747,828
<b>Total capital assets</b>	<b>288,640,890</b>	<b>287,911,781</b>
Other noncurrent assets:		
Deferred bond issuance costs	1,218,103	1,444,507
Other receivable, net of current portion and discount of \$412,643 and \$448,409 in 2004 and 2003, respectively	1,107,241	1,192,765
Intangible and other assets, net of accumulated amortization of \$1,130,319 and \$857,842 in 2004 and 2003, respectively	9,768,646	8,925,520
<b>Total other noncurrent assets</b>	<b>12,093,990</b>	<b>11,562,792</b>
<b>Total assets</b>	<b>403,732,892</b>	<b>397,607,325</b>

	September 30	
	2004	2003
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts and contracts payable	\$ 4,430,849	\$ 2,743,388
Compensated absences payable	94,315	87,775
Deferred revenue	225,220	513,841
Due to State of Florida	1,624,400	1,624,400
Current portion of loan payable	476,990	5,230,000
Other current liabilities	646,432	787,463
Total current liabilities	<u>7,498,206</u>	<u>10,986,867</u>
Liabilities payable from restricted assets:		
Accounts and contracts payable	404,619	598,524
Security deposits	232,456	218,822
Interest payable on revenue bonds	3,370,444	3,570,695
Current portion of loan payable	725,460	-
Current maturities of revenue bonds	8,410,000	8,010,000
Total liabilities payable from restricted assets	<u>13,142,979</u>	<u>12,398,041</u>
Long-term liabilities:		
Loan payable	-	3,669,881
Compensated absences payable	1,002,371	932,867
Revenue bonds payable [less current maturities and net of unamortized premium of \$4,439,806 and \$5,224,886 in 2004 and 2003, respectively, and unamortized loss on refunding of \$(3,589,464) and \$(4,282,870) in 2004 and 2003, respectively]	120,910,342	129,412,016
Total long-term liabilities	<u>121,912,713</u>	<u>134,014,764</u>
Total liabilities	<u>142,553,898</u>	<u>157,399,672</u>
Net assets:		
Invested in capital assets, net of related debt	156,988,995	143,034,391
Restricted:		
Passenger facility charges	28,698,088	22,791,765
Debt service	15,564,137	15,887,125
Renewal and replacement	6,908,849	7,719,335
Operation and maintenance	5,838,082	5,368,821
Capital outlay	3,917,688	2,908,755
	<u>60,926,844</u>	<u>54,675,801</u>
Unrestricted	43,263,155	42,497,461
Total net assets	<u>\$ 261,178,994</u>	<u>\$ 240,207,653</u>

*The accompanying notes to the financial statements are an integral part of these statements.*

Palm Beach County Department of Airports

Statement of Revenues, Expenses and Changes in Net Assets

	<b>Years Ended September 30</b>	
	<b>2004</b>	<b>2003</b>
Operating revenues:		
Rentals	\$ 19,345,557	\$ 17,900,803
Concessions	26,734,958	24,030,622
Landing fees	4,066,044	3,263,128
Other	2,506,272	2,535,833
Total operating revenues	<u>52,652,831</u>	<u>47,730,386</u>
Operating expenses:		
Employee compensation and benefits	9,328,065	8,466,475
General and administrative	7,572,256	7,698,871
Maintenance	4,131,153	4,174,865
Contracted security services	6,661,144	6,854,670
Contracted fire-rescue services	5,378,847	4,732,970
Utilities	2,756,529	2,355,014
Total operating expenses before depreciation and amortization	<u>35,827,994</u>	<u>34,282,865</u>
Operating income before depreciation and amortization	16,824,837	13,447,521
Depreciation and amortization	<u>15,720,084</u>	<u>15,785,313</u>
Operating income (loss)	<u>1,104,753</u>	<u>(2,337,792)</u>
Nonoperating revenues (expenses):		
Investment income	2,024,732	2,263,831
Passenger facility charges	8,821,781	7,586,057
Operating grants	-	524,711
Interest expense	(6,740,887)	(7,141,388)
Gain on disposal of assets	738,906	76,394
Amortization of revenue bond costs	(134,730)	(130,275)
Other revenues (expenses)	(3,260)	33,729
Total nonoperating revenues	<u>4,706,542</u>	<u>3,213,059</u>
Capital contributions	14,801,546	13,050,403
Transfers in	<u>358,500</u>	-
Change in net assets	<u>20,971,341</u>	<u>13,925,670</u>
Net assets at beginning of year	<u>240,207,653</u>	<u>226,281,983</u>
Net assets at end of year	<u>\$ 261,178,994</u>	<u>\$ 240,207,653</u>

*The accompanying notes to the financial statements are an integral part of these statements.*

Palm Beach County Department of Airports

Statement of Cash Flows

	Years Ended September 30	
	2004	2003
<b>Operating activities</b>		
Cash received from customers	\$ 51,656,915	\$ 47,673,328
Cash payments to vendors for goods and services	(14,742,809)	(15,366,356)
Cash payments to employees for services	(9,150,510)	(8,342,994)
Cash payments to other funds	(12,282,533)	(11,130,021)
Other receipts (disbursements)	(3,260)	33,729
Net cash provided by operating activities	<u>15,477,803</u>	<u>12,867,686</u>
<b>Noncapital financing activities</b>		
Transfers from other county funds	358,500	-
Operating grants received	-	524,711
Net cash provided by noncapital financing activities	<u>358,500</u>	<u>524,711</u>
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(15,564,456)	(26,610,598)
Proceeds from sale of capital assets	768,704	2,090,715
Repayment on loan payable	(7,697,431)	-
Repayment on note payable	-	(600,119)
Principal repayment on revenue bonds	(8,010,000)	(7,635,000)
Passenger facility charges received	8,821,781	7,586,057
Receipt of capital grants and reimbursements	15,105,947	13,157,983
Interest and fiscal charges paid	(6,941,138)	(6,486,821)
Net cash used for capital and related financing activities	<u>(13,516,593)</u>	<u>(18,497,783)</u>
<b>Investing activities</b>		
Purchase of investments	(14,280,985)	(9,620,037)
Proceeds from sale and maturity of investments	14,370,352	9,621,219
Receipt of repayments on other receivables	80,811	38,424
Interest received on investments	2,434,303	2,325,331
Net cash provided by investing activities	<u>2,604,481</u>	<u>2,364,937</u>
Net change in cash and cash equivalents	4,924,191	(2,740,449)
Cash and cash equivalents at beginning of year (including \$51,920,417 and \$48,212,818 in restricted accounts)	<u>79,081,177</u>	<u>81,821,626</u>
Cash and cash equivalents at end of year (including \$59,444,612 and \$51,920,417 in restricted accounts)	<u>\$ 84,005,368</u>	<u>\$ 79,081,177</u>

Continued on next page.

Palm Beach County Department of Airports

Statement of Cash Flows (continued)

	Years Ended September 30	
	2004	2003
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ 1,104,753	\$ (2,337,792)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,720,084	15,785,313
Provision for doubtful accounts	4,908	5,036
Other (expense) revenue	(3,260)	33,729
Changes in net assets and liabilities:		
Accounts receivable	(725,837)	736,912
Inventories	(21,496)	(17,576)
Intangible and other assets	(1,112,872)	(2,153,219)
Accounts and contracts payable	851,497	1,033,189
Compensated absences payable	76,044	63,395
Deferred revenues	(288,621)	(853,948)
Other current liabilities	(141,031)	517,705
Security deposits	13,634	54,942
Total adjustments	<u>14,373,050</u>	<u>15,205,478</u>
Net cash provided by operating activities	<u>\$ 15,477,803</u>	<u>\$ 12,867,686</u>
<b>Non-cash capital and related financing activities</b>		
Amortization of intangible assets	\$ 272,477	\$ 244,587
Amortization of deferred issue costs	134,730	130,275
Amortization of premium on bonds	785,080	836,408
Contributions of capital assets	14,801,546	13,050,403
Disposition of fully depreciated capital assets	900,040	590,016
Change in fair value of investments	(389,000)	(51,000)

*The accompanying notes to the financial statements are an integral part of these statements.*

# Palm Beach County Department of Airports

## Notes to Financial Statements

For the Fiscal Years Ended September 30, 2004 and 2003

### **1. Significant Accounting Policies**

#### **Reporting Entity**

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

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

#### **Basis of Presentation**

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

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

#### **Basis of Accounting**

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

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.

## Palm Beach County Department of Airports

### Notes to Financial Statements (continued)

#### **1. Significant Accounting Policies (continued)**

Rental revenue includes revenue from terminal fees charged to airlines. Concession revenue includes car rental concessions and parking fees.

The Department of Airports follows all applicable pronouncements of the Governmental Accounting Standards Board (GASB), as well as certain pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Department of Airports has elected not to apply FASB pronouncements issued after November 30, 1989.

#### **Cash and Cash Equivalents**

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

#### **Investments**

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

#### **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 due under the Department of Airports operating leases. No collateral is required for accounts receivable. An allowance for doubtful accounts is provided for receivables where there is a question as to ultimate collectability. Receivables are written off when management has determined that the amount will not be collected. Collection on accounts previously written off is included in other revenues when received.

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**1. Significant Accounting Policies (continued)**

**Inventories**

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

**Capital Assets**

Capital assets are recorded at cost or, if donated, at fair value at the date of donation. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments which significantly 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	10-40 years
Improvements other than buildings	5-20 years
Furniture, fixtures and equipment	4-12 years

Depreciation on capital assets acquired through contributions from developers, customers and other governments is recorded as an expense in the statements of revenues, expenses and changes in net assets.

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as “noise-impacted” surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration (FAA) Noise Abatement Grant Program for reimbursement. The FAA funds approximately 80% of these costs with the remainder financed by the 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 costs associated with acquiring these parcels of land are approximately \$79,793,000 and \$77,509,000 at September 30, 2004 and 2003, respectively, and is recorded under the caption “land” in the accompanying statements of net assets.

## Palm Beach County Department of Airports

### Notes to Financial Statements (continued)

#### **1. Significant Accounting Policies (continued)**

##### **Intangible Assets**

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

##### **Security Deposits**

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

##### **Deferred Revenue**

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

##### **Restricted Assets and Reserves**

Certain assets are restricted in accordance with the provisions of the Bond Resolution (Resolution) and in accordance with FAA restrictions. Assets restricted under the Resolution are designated primarily for payment of debt service and the retention of the operation and maintenance reserve, all as defined in the Resolution. Assets subject to FAA restrictions include approximately \$4,589,000 and \$3,063,000 at September 30, 2004 and 2003, 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 passenger facility charge revenues that are restricted by the FAA to capital projects.

##### **Amortization**

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

# Palm Beach County Department of Airports

## Notes to Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

#### **Interest**

Interest costs are expensed or capitalized in accordance with the provisions of Statements of Financial Accounting Standards No. 34, Capitalization of Interest Cost, and No. 62, Capitalization and Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants. The amount of interest cost incurred was \$6,740,887 and \$7,141,388 for the fiscal years ended September 30, 2004 and 2003, respectively, all of which was charged to expense.

#### **Compensated Absences**

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

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

#### **Passenger Facility Charges**

The Department of Airports received approval of the FAA to impose a \$3 Passenger Facility Charge (PFC) for each passenger enplaned at the Airport. Effective March 2004, the Airport is authorized to collect up to \$109,401,576 of PFC revenue to fund construction of pre-approved capital projects. The estimated expiration date on PFC revenue collection is February 2007. The Department of Airports began imposing this charge effective April 1, 1994. For the years ended September 30, 2004 and 2003, the Department of Airports collected \$8,821,781 and \$7,586,057 respectively, of PFCs for a cumulative total of \$81,457,759 and has earned interest on unspent funds of \$7,999,256. Cumulative expenditures amount to \$62,317,593. The net unexpended monies of \$28,698,088 are included in the accompanying financial statements as restricted net assets because these funds must be spent on FAA approved capital improvements.

#### **Capital Contributions**

Grants from other governmental agencies for the acquisition of capital assets are recorded as capital contributions when related costs are incurred.

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**1. Significant Accounting Policies (continued)**

**Use of Estimates**

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

**2. Cash and Cash Equivalents and Investments**

Cash and cash equivalents consist of the following at September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Equity in County pooled cash system	\$ 71,657,823	\$ 66,962,454
Deposits with financial institutions	12,346,445	12,117,623
Petty cash	1,100	1,100
Total	<u>\$ 84,005,368</u>	<u>\$ 79,081,177</u>
Unrestricted cash and cash equivalents	\$ 24,560,756	\$ 27,160,760
Restricted cash and cash equivalents	59,444,612	51,920,417
Total	<u>\$ 84,005,368</u>	<u>\$ 79,081,177</u>

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 \$1.4 billion and \$1.3 billion as of September 30, 2004 and 2003, respectively, of which approximately 88% and 78%, respectively, are invested in U.S. Government and Agency obligations, which are classified as Category 1 investments. Almost all remaining amounts at September 30, 2004 and 2003 were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer (State Treasurer) and the Florida Local Government Investment Trust. For purposes of categorizing the equity in pooled cash in accordance with the provisions of GASB Statement No. 3 (Deposits with Financial Institutions, including Repurchase Agreements, and Reverse Repurchase Agreements), the pooled cash investments in the Local Government Surplus Funds Trust Fund and the Florida Local Government Investment Trust cannot be categorized because they are not evidenced by

## Palm Beach County Department of Airports

### Notes to Financial Statements (continued)

#### **2. Cash and Cash Equivalents and Investments (continued)**

cash or securities that exist in physical or book entry form. These financial instruments may be subject to credit or market risk. Information quantifying these risks was not available, but management believes the impact to the Department of Airports, if any, would be minimal. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. The equity in the County pooled cash system is available to the Department of Airports on a demand basis.

The deposits with financial institutions were entirely covered by a combination of Federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions which comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer. Qualified public depositories are required to pledge collateral to the State Treasurer with a fair value equal to at least 50% of the average daily balance of all government deposits in excess of any Federal deposit insurance. In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of Federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured in accordance with the provisions of GASB Statement No. 3.

#### **Investments**

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, interest-bearing time deposits or savings accounts, the Local Government Surplus Funds Trust Fund and the Florida Local Government Investment Trust. The Department of Airports invested only in permissible securities during the year.

The Department of Airports carries its investments at fair value. At September 30, 2004 and 2003, investments consisted of U.S. Government Agency obligations with a carrying value of \$14,401,413 and \$14,879,586 respectively. The Department of Airports anticipates holding these investments to maturity. These investments are categorized in accordance with GASB Statement No. 3 and are considered to be in Category 1 as investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Investment income for the years ended September 30, 2004 and 2003 includes net realized and unrealized gains (losses) of approximately \$(389,000) and \$(51,000), respectively.

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**3. Capital Assets**

Capital assets consist of the following:

	<b>Balance at October 1, 2003</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance at September 30, 2004</b>
<b>Depreciable capital assets</b>					
Buildings	\$ 183,730,273	\$ –	\$ –	\$5,092,524	\$ <b>188,822,797</b>
Improvements other than buildings	144,143,065	146,672	–	3,658,500	<b>147,948,237</b>
Furniture, fixtures and equipment	30,987,705	962,210	902,418	–	<b>31,047,497</b>
Total depreciable capital assets	358,861,043	1,108,882	902,418	8,751,024	<b>367,818,531</b>
Less accumulated depreciation					
Buildings	86,955,356	7,594,177	–	–	<b>94,549,533</b>
Improvements other than buildings	99,636,837	6,417,914	–	–	<b>106,054,751</b>
Furniture, fixtures and equipment	25,594,380	1,435,517	900,040	–	<b>26,129,857</b>
Total accumulated depreciation	212,186,573	15,447,608	900,040	–	<b>226,734,141</b>
Depreciable capital assets, net of accumulated depreciation	\$ 146,674,470	\$(14,338,726)	\$ 2,378	\$8,751,024	<b>\$ 141,084,390</b>
<b>Nondepreciable capital assets</b>					
Land	\$ 122,489,483	\$ 2,308,940	\$ 27,420	\$ –	\$ <b>124,771,003</b>
Construction in progress	18,747,828	12,788,693	–	(8,751,024)	<b>22,785,497</b>

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**3. Capital Assets (continued)**

	<b>Balance at October 1, 2002</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance at September 30, 2003</b>
<b>Depreciable capital assets</b>					
Buildings	\$ 171,727,037	\$ 8,899,881	\$ –	\$ 3,103,355	\$ 183,730,273
Improvements other than buildings	143,638,130	–	–	504,935	144,143,065
Furniture, fixtures and equipment	30,833,164	675,460	590,017	69,098	30,987,705
<b>Total depreciable capital assets</b>	<b>346,198,331</b>	<b>9,575,341</b>	<b>590,017</b>	<b>3,677,388</b>	<b>358,861,043</b>
<b>Less accumulated depreciation</b>					
Buildings	80,679,041	6,276,315	–	–	86,955,356
Improvements other than buildings	92,251,537	7,385,300	–	–	99,636,837
Furniture, fixtures and equipment	24,305,285	1,879,112	590,017	–	25,594,380
<b>Total accumulated depreciation</b>	<b>197,235,863</b>	<b>15,540,727</b>	<b>590,017</b>	<b>–</b>	<b>212,186,573</b>
<b>Depreciable capital assets, net of accumulated depreciation</b>	<b>\$ 148,962,468</b>	<b>\$ (5,965,386)</b>	<b>\$ –</b>	<b>\$ 3,677,388</b>	<b>\$ 146,674,470</b>
<b>Nondepreciable capital assets</b>					
Land	\$ 116,101,267	\$ 12,973	\$ 2,014,321	\$ 8,389,564	\$ 122,489,483
Construction in progress	4,292,495	26,522,285	–	(12,066,952)	18,747,828

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**4. Leases**

The Department of Airports leases a major portion of its property to airlines and concessionaires. Certain of the concessionaire leases provide for minimum rentals plus a contingency portion specified as a percentage of the tenants' gross revenues. Contingent rental income under such arrangements amounted to approximately \$8,177,000 and \$2,635,000 for the years ended September 30, 2004 and 2003, respectively. All Department of Airports' leases are operating leases.

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

Year ending September 30,	
2005	\$ 31,269,000
2006	14,432,000
2007	14,718,000
2008	14,281,000
2009	3,450,000
Thereafter	36,765,000
	<u>\$ 114,915,000</u>

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Buildings	<b>\$ 143,666,839</b>	\$ 149,199,315
Less: accumulated amortization	<b>72,967,964</b>	66,559,238
	<b>70,698,875</b>	82,640,077
Land	<b>1,867,182</b>	1,867,182
Property held for lease, net	<b><u>\$ 72,566,057</u></b>	<u>\$ 84,507,259</u>

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**5. Due to State of Florida**

The Department of Airports entered into joint participation agreements with the Florida Department of Transportation (FDOT) and received State financial assistance for the acquisition of land for the North County Airport. Pursuant to the terms of the Joint Participation Agreements and Florida Statutes, the FDOT advanced up to 75% of the cost of the land acquisition and is to be reimbursed for all amounts in excess of 50% of eligible project costs which are not funded by the Federal Government. Reimbursements are due to the FDOT when Federal funds are received or within ten years after the date of the land acquisition, whichever is earlier. At September 30, 2004 and 2003, the amount to be reimbursed to the FDOT related to the advanced funds is \$1,624,400 because the ten-year period has expired. Management of the Airport is currently in negotiations with the FDOT regarding the ultimate disposition of this advance.

**6. Revenue Bonds and Loan Payable**

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Series 2002 Revenue Refunding Bonds due in annual installments of \$13,645,000 to \$16,500,000 beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semiannually on October 1 and April 1	<b>\$ 60,150,000</b>	\$ 60,150,000
Series 2001 Revenue Refunding Bonds due in annual installments of \$7,635,000 to \$11,215,000 through October 1, 2010, with interest from 4.0% to 5.5% payable semiannually on October 1 and April 1	<b>68,320,000</b>	76,330,000
	<b>128,470,000</b>	136,480,000
Less: current portion	<b>8,410,000</b>	8,010,000
	<b>120,060,000</b>	128,470,000
Net unamortized premium	<b>4,439,806</b>	5,224,886
Unamortized loss on refunding	<b>(3,589,464)</b>	(4,282,870)
Long-term portion	<b>\$ 120,910,342</b>	\$ 129,412,016

## Palm Beach County Department of Airports

### Notes to Financial Statements (continued)

#### **6. Revenue Bonds and Loan Payable (continued)**

##### **Series 2002**

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

This advance refunding resulted in a loss of approximately \$2.9 million that is being deferred and amortized over the life of the new bonds. However, the Department of Airports reduced its aggregate debt service payments by approximately \$3.7 million over the next 12 years and obtained an economic loss (difference between the present values of the old and new debt service payments) of approximately \$900,000.

##### **Series 2001**

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

This advance refunding resulted in a loss of approximately \$2.7 million that is being deferred and amortized over the life of the new bonds. However, the Department of Airports reduced its aggregate debt service payments by approximately \$7.1 million over the next 9 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$4.2 million.

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**6. Revenue Bonds and Loan Payable (continued)**

**Loan Payable**

In conjunction with the purchase of a parcel of property during the fiscal year ended September 30, 2003, the Airport is obligated to pay \$9.5 million of the \$14.5 million total purchase price over a period of approximately 2.5 years. The \$9.5 million will be paid to the seller as the seller makes draws for construction on its new facility. The loan is noninterest bearing. The current portion of the loan at September 30, 2004 was estimated to be \$1,202,450 based on the estimated completion date of the seller's new facility.

A summary of changes in long term liabilities for the years ended September 30, 2004 and 2003 is as follows:

	<b>Balance at October 1, 2003</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at September 30, 2004</b>	<b>Due Within One Year</b>
Revenue refunding bonds:					
Series 2002	\$ 60,150,000	\$ -	\$ -	<b>\$ 60,150,000</b>	\$ -
Series 2001	76,330,000	-	8,010,000	<b>68,320,000</b>	8,410,000
Loan payable	8,899,881	-	7,697,431	<b>1,202,450</b>	1,202,450
Compensated absences payable	1,020,642	112,505	36,461	<b>1,096,686</b>	94,315
	<u>\$ 146,400,523</u>	<u>\$ 112,505</u>	<u>\$ 15,743,892</u>	<b><u>130,769,136</u></b>	<u>\$ 9,706,765</u>
Less current maturities				<b><u>9,706,765</u></b>	
Long-term portion				<b>121,062,371</b>	
Add unamortized bond premium				<b>4,439,806</b>	
Less unamortized loss on refunding				<b><u>(3,589,464)</u></b>	
Total				<b><u>\$ 121,912,713</u></b>	

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**6. Revenue Bonds and Loan Payable (continued)**

	<b>Balance at October 1, 2002</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at September 30, 2003</b>	<b>Due Within One Year</b>
Revenue refunding bonds:					
Series 2002	\$ 60,150,000	\$ -	\$ -	\$ 60,150,000	\$ -
Series 2001	83,965,000	-	7,635,000	76,330,000	8,010,000
Loan payable	-	9,500,000	600,119	8,899,881	5,230,000
Compensated absences payable	957,257	145,708	82,323	1,020,642	87,775
	<u>\$ 145,072,257</u>	<u>\$ 9,645,708</u>	<u>\$ 8,317,442</u>	146,400,523	<u>\$ 13,327,775</u>
Less current maturities				<u>(13,327,775)</u>	
Long-term portion				133,072,748	
Add unamortized bond premium				5,224,886	
Less unamortized loss on refunding				<u>(4,282,870)</u>	
Total				<u>\$ 134,014,764</u>	

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending September 30,			
2005	\$ 8,410,000	\$ 6,530,636	\$ 14,940,636
2006	8,830,000	6,077,561	14,907,561
2007	9,315,000	5,648,436	14,963,436
2008	9,690,000	5,195,661	14,885,661
2009	10,225,000	4,724,686	14,949,686
2010-2014	65,500,000	14,639,230	80,139,230
2015-2016	16,500,000	474,375	16,974,375
	<u>\$ 128,470,000</u>	<u>\$ 43,290,585</u>	<u>\$ 171,760,585</u>

## Palm Beach County Department of Airports

### Notes to Financial Statements (continued)

#### **7. Interest Rate Swap Agreements**

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, 2004 and 2003 the net amount receivable was \$1,192,765 (net of discount of \$412,643) and \$1,273,576 (net of discount of \$448,409), respectively.

#### **8. Defined Benefit Pension Plan**

##### **Plan Description**

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

The System issued 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.

##### **Funding Policy**

Plan members are not required to contribute to the System. The Department of Airports is required to contribute at an actuarially determined rate, which is presently 7.39% of annual covered payroll. The contribution requirement for plan members and participating governments is established by State Statute. The Department of Airports' contributions to the System for the years ended September 30, 2004, 2003 and 2002 were approximately \$517,000, \$413,000 and \$433,000, respectively, and were equal to the required contributions for each year.

## Palm Beach County Department of Airports

### Notes to Financial Statements (continued)

#### **9. Related Party Transactions**

The Department of Airports reimburses the General Fund of Palm Beach County for an allocated portion of certain support department costs which include such services as legal, administrative, fiscal, engineering, purchasing, personnel, internal audit and communication costs. The Department of Airports is also charged for the cost of services provided by the Motor Pool, Casualty Self-Insurance, Workers' Compensation and Data Processing Internal Service Funds of the County. The total cost for the above services was approximately \$4,192,000 and \$3,487,000 for the years ended September 30, 2004 and 2003, respectively. In addition, the Department of Airports also 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, 2004 and 2003 totaled approximately \$162,000 and \$170,000, respectively. At September 30, 2004 and 2003, there were no amounts receivable from other funds and departments of Palm Beach County and \$265,364 and \$43,910, respectively, was payable to other County funds and departments. These amounts are included in accounts and contracts payable in the statement of net assets.

The Department of Airports also contracts directly with the Palm Beach County Sheriff's Department for security services at Palm Beach International Airport. The cost of these services was approximately \$6,661,000 and \$6,468,000 for the years ended September 30, 2004 and 2003, respectively. The Department of Airports also contracts with the Fire-Rescue Department for fire-rescue services at Palm Beach International Airport. The cost of these services was approximately \$5,389,000 and \$4,719,000 for the years ended September 30, 2004 and 2003, respectively.

#### **10. Major Customers**

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

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

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**10. Major Customers (continued)**

Major airlines, based on this criterion are as follows:

<b>Airline</b>	<b>Percent of Activity Based Upon Enplaned Passengers</b>	
	<b>Years Ended September 30</b>	
	<b>2004</b>	<b>2003</b>
Delta Airlines, Inc.	<b>33.01%</b>	35.61%
USAir, Inc.	<b>14.79</b>	15.56
Continental Airlines, Inc.	<b>11.14</b>	12.05
Southwest Airlines Company	<b>9.99</b>	9.54
Jet Blue Airways Corporation	<b>9.99</b>	8.90
American Airlines, Inc.	<b>7.04</b>	5.11
Others	<b>14.04</b>	13.23
	<b>100.00%</b>	100.00%

**11. Commitments and Contingencies**

**Litigation**

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

**Grants**

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

Palm Beach County Department of Airports

Notes to Financial Statements (continued)

**11. Commitments and Contingencies (continued)**

**Insurance**

The Department of Airports participates in the county-wide self-insurance programs for Casualty Insurance, Health Insurance and Workers' Compensation Insurance and paid premiums of \$1,712,086 for the year ended September 30, 2004. While each of these programs is subject to potential losses in excess of the amounts that have been accrued and funded as of September 30, 2004 and 2003, management believes it is unlikely that the amounts of such potential losses, if any, would be material. In addition, the Department of Airports also has a commercial policy that provides insurance in the event of a disaster.

**Contract Commitments**

The Department of Airports has several uncompleted design and construction contracts for improvements to the airport system. At September 30, 2004, the remaining commitment on these uncompleted contracts was \$26,930,999, which is summarized as follows:

<u>Contract Amount</u>	<u>Approved Payments</u>	<u>Retainage Payable</u>	<u>Remaining Contract Commitment</u>
<u>\$ 60,643,616</u>	<u>\$ 31,240,781</u>	<u>\$ 2,471,836</u>	<u>\$ 26,930,999</u>

**Other**

During the month of September 2004, the Department was significantly impacted by hurricanes Frances and Jeanne. Palm Beach International (PBI) and all three general aviation airports were impacted by hurricane force winds. As a result, PBI was closed to commercial activity for approximately 3 days in total for both events. Revenue losses were relatively insignificant to the year's final results. Costs related to the hurricanes actually incurred prior to September 30, 2004 related solely to payroll costs for overtime of approximately \$221,000. Physical damages are estimated at \$4.5 million. The Department of Airports anticipates receiving reimbursements for at least 90% of the cost of repairs for the damages and eligible payroll costs from insurance and grants. In November 2004, the FAA provided a grant totaling approximately \$3,052,000 for hurricane repair.

# Other Financial Information

Palm Beach County Department of Airports  
Schedule of Amounts on Deposit and Investments

September 30, 2004

Description	Par Amount	Cost	Fair Value
Revenue fund:			
Petty cash		\$ 1,100	\$ 1,100
Cash and cash equivalents:			
Equity in pooled cash (2)		7,951,054	7,951,054
		<u>\$ 7,952,154</u>	<u>\$ 7,952,154</u>
Renewal and replacement fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 6,908,849	\$ 6,908,849
Debt service fund—2001 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 55,194	\$ 55,194
Bank of America – money market account (1)		10,087,562	10,087,562
		<u>\$ 10,142,756</u>	<u>\$ 10,142,756</u>
Debt service fund—2002 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 333,111	333,111
Bank of America – money market account (1)		1,733,761	1,733,761
		<u>\$ 2,066,872</u>	<u>2,066,872</u>
Debt service fund—debt service reserve account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 58	\$ 58
Bank of America – money market account (1)		525,122	525,122
U.S. Government and Agencies:			
FNMA, 2.65%, due 9/8/05 (3)	\$ 4,966,000	4,966,000	4,970,668
FHLMC, 5.125%, due 10/15/08 (3)	8,415,000	8,060,880	8,927,810
FHLB, 3.0%, due 8/15/05 (3)	500,000	503,359	502,935
		<u>\$ 14,055,419</u>	<u>\$ 14,926,593</u>

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Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments (continued)

September 30, 2004

Description	Par Amount	Cost	Fair Value
Restricted assets fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 5,239,278	\$ 5,239,278
Improvement and development fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 22,679,140	\$ 22,679,140
Passenger facility charge fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 28,698,088	\$ 28,698,088
Noise abatement and mitigation fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ (206,949)	\$ (206,949)

Notes:

- (1) Held on deposit or as safekeeping agent by Bank of America, West Palm Beach, Florida with U.S. Bank, as Trustee.
- (2) Investment represents amounts on deposit in the Palm Beach County pooled cash system. As of September 30, 2004, approximately 88% of funds held in this pooled system were invested in U.S. Government and Agency obligations and virtually all of the remaining funds were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer and the Florida Local Government Investment Trust.
- (3) Held on deposit or as safekeeping agent by U.S. Bank.

Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments

September 30, 2003

Description	Par Amount	Cost	Fair Value
Revenue fund:			
Petty cash		\$ 1,100	\$ 1,100
Cash and cash equivalents:			
Equity in pooled cash (2)		5,587,643	5,587,643
		<u>\$ 5,588,743</u>	<u>\$ 5,588,743</u>
Renewal and replacement fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 7,707,172	\$ 7,707,172
Debt service fund—2001 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 60,423	\$ 60,423
Bank of America – money market account (1)		4,847,956	4,847,956
		<u>\$ 4,908,379</u>	<u>\$ 4,908,379</u>
Debt service fund—2002 refunding account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 181,040	\$ 181,040
Bank of America – money market account (1)		1,439,155	1,439,155
		<u>\$ 1,620,195</u>	<u>\$ 1,620,195</u>
Debt service fund—debt service reserve account:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 57	\$ 57
Bank of America – money market account (1)		5,830,512	5,830,512
U.S. Government and Agencies:			
FNMA, 6.1%, due 10/21/02 (3)	\$ 500,000	5,243,369	5,202,331
FHLMC, 4.5%, due 08/15/04 (3)	5,060,000	8,060,880	9,164,440
FHLMC, 5.125%, due 10/15/08 (3)	8,415,000	503,359	512,815
		<u>\$ 19,638,177</u>	<u>\$ 20,710,155</u>

Continued on next page.

Palm Beach County Department of Airports

Schedule of Amounts on Deposit and Investments (continued)

September 30, 2003

Description	Par	Cost	Fair Value
Restricted assets fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 3,142,209	\$ 3,142,209
Improvement and development fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 27,159,660	\$ 27,159,660
Passenger facility charge fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 22,791,765	\$ 22,791,765
Noise abatement and mitigation fund:			
Cash and cash equivalents:			
Equity in pooled cash (2)		\$ 332,485	\$ 332,485

Notes:

- (1) Held on deposit or as safekeeping agent by Bank of America, West Palm Beach, Florida, with U.S. Bank, as Trustee.
- (2) Investment represents amounts on deposit in the Palm Beach County pooled cash system. As of September 30, 2004 , approximately 85% of funds held in this pooled system were invested in U.S. Government and Agency obligations and virtually all of the remaining funds were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer and the Florida Local Government Investment Trust.
- (3) Held on deposit or as safekeeping agent by U.S. Bank

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account

For the Year Ended September 30, 2004

	<b>Total</b>	<b>Revenue Fund</b>	<b>Renewal and Replacement Fund</b>	<b>Debt Service Fund</b>		
				<b>2002 Debt Service Refunding</b>	<b>2001 Debt Service Refunding</b>	<b>Debt Service Reserve Account</b>
Cash and investments on deposit, September 30, 2003	\$ 93,960,763	\$ 5,588,743	\$ 7,707,172	\$ 1,620,195	\$ 4,908,379	\$ 20,710,155
Cash receipts:						
Operating receipts	60,629,606	51,609,712	—	—	—	—
Florida state sales tax	1,302,640	1,302,640	—	—	—	—
Interest collected on investments	2,047,819	200,628	175,486	84,094	52,412	295,356
Net customer deposits received	12,955	12,955	—	—	—	—
Proceeds from grants	15,105,946	—	—	—	—	—
Sale of land	665,000	—	—	—	—	—
Other receipts	640,447	—	111,136	80,811	—	—
Transfers from:	—	—	—	—	—	—
Passenger facility charge fund	3,577,028	—	—	—	—	—
Noise abatement & mitigation fund	—	—	—	—	—	—
Operations fund	22,360,400	—	—	3,451,446	11,650,024	—
Capital projects fund	—	—	—	—	—	—
Renewal and replacement fund	80,343	80,343	—	—	—	—
Debt service fund – debt service reserve account	752,542	752,543	—	—	—	—
Debt service fund	5,326,375	—	—	293,561	5,032,814	—
Restricted assets fund	101,966	101,966	—	—	—	—
Improvement and development fund	8,890,380	7,350,610	16,183	—	—	—
Total cash receipts	121,493,447	61,411,397	302,805	3,909,912	16,735,250	295,356

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the Year Ended September 30, 2004

	<b>Restricted Asses Fund</b>	<b>Improvement &amp; Development Fund</b>	<b>Passenger Facility Charge Fund</b>	<b>Abatement and Mitigation</b>
Cash and investments on deposit, September 30, 2003	\$ 3,142,209	\$ 27,159,660	\$ 22,791,765	\$ 332,485
Cash receipts:				
Operating receipts	-	-	8,821,781	198,113
Florida state sales tax	-	-	-	-
Interest collected on investments	109,035	519,694	637,983	(26,869)
Net customer deposits received	-	-	-	-
Proceeds from grants	-	12,747,369	-	2,358,577
Sale of land	665,000	-	-	-
Other receipts	-	448,500	-	-
Transfers from:	-	-	-	-
Passenger facility charge fund	-	3,368,666	-	208,362
Noise abatement & mitigation fund	-	-	-	-
Operations fund	-	7,258,930	-	-
Capital projects fund	-	-	-	-
Renewal and replacement fund	-	-	-	-
Debt service fund – debt service reserve account	-	-	-	-
Debt service fund	-	-	-	-
Restricted assets fund	-	-	-	-
Improvement and development fund	1,500,000	-	23,587	-
Total cash receipts	<u>2,274,035</u>	<u>24,343,159</u>	<u>9,483,351</u>	<u>2,738,183</u>

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the Year Ended September 30, 2004

	<u>Total</u>	<u>Revenue Fund</u>	<u>Renewal and Replacement Fund</u>	<u>Debt Service Fund</u>		
				<u>2002 Debt Service Refunding</u>	<u>2001 Debt Service Refunding</u>	<u>Debt Service Reserve Account</u>
Cash disbursements:						
Operating expenses	\$ 36,062,352	\$ 35,392,702	\$ -	\$ 4,610	\$ 8,360	\$ -
Capital expenditures	23,650,041	-	1,020,785	-	-	-
Bond interest expense	6,941,138	-	-	3,458,625	3,482,513	-
Bond issue costs	-	-	-	-	-	-
Florida state sales tax	1,294,884	1,294,884	-	-	-	-
Matured bonds/interest	8,010,000	-	-	-	8,010,000	-
Transfers to:	-	-	-	-	-	-
Operations fund	8,285,462	-	80,343	-	-	752,543
Improvement and development fund	10,627,596	7,258,930	-	-	-	-
Passenger facility charge fund	23,587	-	-	-	-	-
Debt service reserve account	-	-	-	-	-	-
Renewal and replacement fund	224,525	-	-	-	-	-
Debt service fund ser 02	3,745,007	3,451,446	-	-	-	293,561
Debt service fund ser 01	16,682,838	11,650,024	-	-	-	5,032,814
Restricted assets fund	1,500,000	-	-	-	-	-
Noise abatement and mitigation fund	-	-	-	-	-	-
Total cash disbursements	<u>117,047,430</u>	<u>59,047,986</u>	<u>1,101,128</u>	<u>3,463,235</u>	<u>11,500,873</u>	<u>6,078,918</u>
Cash and investments on deposit, September 30, 2004	<u>\$ 98,406,781</u>	<u>\$ 7,952,154</u>	<u>\$ 6,908,849</u>	<u>\$ 2,066,872</u>	<u>\$ 10,142,756</u>	<u>\$ 14,926,593</u>

Note: The schedule herein has been prepared on a cash basis as required by the Resolution and does not reflect the adjustments which have been recorded to the accompanying financial statements necessary to amortize premiums or accrete discounts which are inherent in the purchase price of fixed rate investments.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the Year Ended September 30, 2004

	<u>Restricted Assets Fund</u>	<u>Improvement and Development Fund</u>	<u>Passenger Facility Charge Fund</u>	<u>Noise Abatement and Mitigation Fund</u>
Cash disbursements:				
Operating expenses	\$ —	\$ 656,680	\$ —	\$ —
Capital expenditures	75,000	19,276,639	—	3,277,617
Bond interest expense	—	—	—	—
Bond issue costs	—	—	—	—
Florida state sales tax	—	—	—	—
Matured bonds/interest	—	—	—	—
Transfers to:				
Operations fund	101,966	7,350,610	—	—
Improvement and development fund	—	—	3,368,666	—
Passenger facility charge fund	—	23,587	—	—
Debt service reserve account	—	—	—	—
Renewal and replacement fund	—	16,163	208,362	—
Debt service fund Ser 02	—	—	—	—
Debt service fund ser 01	—	—	—	—
Restricted assets fund	—	1,500,000	—	—
Noise abatement and mitigation fund	—	—	—	—
Total cash disbursements	<u>176,966</u>	<u>28,823,679</u>	<u>3,577,028</u>	<u>3,277,617</u>
Cash and investments on deposit, September 30, 2004	<u>\$ 5,239,278</u>	<u>\$ 22,679,140</u>	<u>\$ 28,698,088</u>	<u>\$ (206,949)</u>

Note: The schedule herein has been prepared on a cash basis as required by the Resolution and does not reflect the adjustments which have been recorded to the accompanying financial statements necessary to amortize premiums or accrete discounts which are inherent in the purchase price of fixed rate investments.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account

For the Year Ended September 30, 2003

	<b>Total</b>	<b>Revenue Fund</b>	<b>Renewal and Replacement Fund</b>	<b>Debt Service Fund</b>		
				<b>2002 Debt Service Refunding</b>	<b>2001 Debt Service Refunding</b>	<b>Debt Service Reserve Account</b>
Cash and investments on deposit, September 30, 2002	\$ 96,753,979	\$ 5,920,532	\$ 8,088,307	\$ 968,663	\$ 9,792,107	\$ 15,870,392
Cash receipts:						
Operating receipts	56,860,314	48,708,104	—	—	—	—
Florida state sales tax	1,822,899	1,822,899	—	—	—	—
Interest collected on investments	2,669,856	405,107	298,650	126,232	50,314	631,815
Proceeds from grants	13,542,428	524,711	—	—	—	—
Proceeds from maturity of investment	—	—	—	—	—	—
Proceeds from sale of bonds	2,042,923	—	—	—	—	—
Merrill Lynch Loan	—	—	—	—	—	—
Other receipts	221,362	102,352	61,371	57,639	—	—
Transfers from:						
Passenger facility charge fund	5,696,511	—	996,433	—	—	—
Noise abatement & mitigation fund	13,539,999	—	—	—	—	—
S.I. - debt service reserve fund	1,118,311	1,118,311	—	—	—	—
Operations fund	15,006,591	—	—	3,082,165	6,598,167	5,326,259
Capital projects fund	—	—	—	—	—	—
Debt service fund – debt service reserve account	—	—	—	—	—	—
Debt service fund	—	—	—	—	—	—
Restricted assets fund	64,425	64,425	—	—	—	—
Improvement and development fund	9,428,351	9,428,351	—	—	—	—
Total cash receipts	122,013,970	62,174,260	1,356,454	3,266,036	6,648,481	5,958,074

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the Year Ended September 30, 2003

	<u>Restricted Asses Fund</u>	<u>Improvement &amp; Development Fund</u>	<u>Passenger Facility Charge Fund</u>	<u>Abatement and Mitigation</u>
Cash and investments on deposit, September 30, 2002	\$ 2,548,237	\$ 32,963,976	\$ 19,782,328	\$ 819,437
Cash receipts:				
Operating receipts	-	-	7,972,436	179,774
Florida state sales tax	-	-	-	-
Interest collected on investments	40,474	623,755	493,509	-
Proceeds from grants	-	4,911,140	-	8,106,577
Proceeds from maturity of investment	-	-	-	-
Proceeds from sale of bonds	2,042,923	-	-	-
Merrill Lynch loan	-	-	-	-
Other receipts	-	-	-	-
Transfers from:				
Passenger facility charge fund	-	2,699,438	-	2,000,640
Noise abatement & mitigation fund	-	13,539,999	-	-
S.I. - debt service reserve fund	-	-	-	-
Operations fund	-	-	-	-
Capital projects fund	-	-	-	-
Debt service fund – debt service reserve account	-	-	-	-
Debt service fund	-	-	-	-
Restricted assets fund	-	-	-	-
Improvement and development fund	-	-	-	-
Total cash receipts	<u>2,083,397</u>	<u>21,774,332</u>	<u>8,465,945</u>	<u>10,286,991</u>

Continued on next page.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the Year Ended September 30, 2003

	Total	Fund	Replacement	Debt Service Fund		
				Service	Service	Reserve Account
Cash disbursements:						
Operating expenses	\$ 30,179,961	\$ 30,123,409	\$ -	\$ 1,321	\$ 23,571	\$ -
Capital expenditures	29,725,873	833,487	1,501,774	-	-	-
Bond interest expense	6,486,821	-	-	2,613,183	3,873,638	-
Bond issue costs	-	-	-	-	-	-
Bond discount	-	-	-	-	-	-
Unamortized loss on bond redemption	-	-	-	-	-	-
Refund of security deposits	-	-	-	-	-	-
Florida state sales tax	1,812,362	1,812,362	-	-	-	-
Matured bonds/interest	7,635,000	-	-	-	7,635,000	-
Bond called	-	-	-	-	-	-
Purchase of investment	-	-	-	-	-	-
Transfers to:						
Operations fund	11,773,870	-	235,815	-	-	1,118,311
Improvement and development fund	14,219,435	11,760,000	-	-	-	-
Debt service account	10,296,459	10,296,459	-	-	-	-
Renewal and replacement fund	996,433	-	-	-	-	-
S.I. debt service fund	3,082,165	3,082,165	-	-	-	-
Debt service fund ser 01	6,598,167	6,598,167	-	-	-	-
Noise abatement and mitigation fund	2,000,640	-	-	-	-	-
Total cash disbursements	<u>124,807,186</u>	<u>64,506,049</u>	<u>1,737,589</u>	<u>2,614,504</u>	<u>11,532,209</u>	<u>1,118,311</u>
Equity transfer - in (out)						
Cash and investments on deposit, September 30, 2003	<u>\$ 93,960,763</u>	<u>\$ 5,588,743</u>	<u>\$ 7,707,172</u>	<u>\$ 1,620,195</u>	<u>\$ 4,908,379</u>	<u>\$ 20,710,155</u>

Note: The schedule herein has been prepared on a cash basis as required by the Resolution and does not reflect the adjustments which have been recorded to the accompanying financial statements necessary to amortize premiums or accrete discounts which are inherent in the purchase price of fixed rate investments.

Palm Beach County Department of Airports

Schedule of Cash Receipts and Disbursements by Fund and Account (continued)

For the Year Ended September 30, 2003

	<u>Restricted Assets Fund</u>	<u>Improvement and Development Fund</u>	<u>Passenger Facility Charge Fund</u>	<u>Noise Abatement and Mitigation Fund</u>
Cash disbursements:				
Operating expenses	\$ -	\$ -	\$ -	\$ 31,660
Capital expenditures	1,425,000	15,223,329	-	10,742,283
Bond interest expense	-	-	-	-
Bond issue costs	-	-	-	-
Bond discount				
Unamortized loss on bond redemption				
Refund of security deposits				
Florida state sales tax	-	-	-	-
Matured bonds/interest	-	-	-	-
Bond call				
Purchase of investment				
Transfers to:				
Operations fund	64,425	10,355,319	-	-
Improvement and development fund	-	-	2,459,435	-
Debt service account				
Renewal and replacement fund	-	-	996,433	-
S.I. - debt service fund	-	-	-	-
Debt service fund ser 01	-	-	-	-
Noise abatement and mitigation fund	-	-	2,000,640	-
Total cash disbursements	<u>1,489,425</u>	<u>25,578,648</u>	<u>5,456,508</u>	<u>10,773,943</u>
Equity transfer - in (out)	-	-	-	-
Cash and investments on deposit, September 30, 2003	<u>\$ 3,142,209</u>	<u>\$ 27,159,660</u>	<u>\$ 22,791,765</u>	<u>\$ 332,485</u>

Note: The schedule herein has been prepared on a cash basis as required by the Resolution and does not reflect the adjustments which have been recorded to the accompanying financial statements necessary to amortize premiums or accrete discounts which are inherent in the purchase price of fixed rate investments.

Palm Beach County Department of Airports  
 Schedule of Bonds Issued, Paid, Purchased or Redeemed  
 For the Year Ended September 30, 2004

<u>Airport System Revenue Refunding Bond</u>	<u>Bonds Outstanding September 30, 2003</u>	<u>Bonds Issued</u>	<u>Bonds Paid, Purchased or Redeemed</u>	<u>Bonds Outstanding September 30, 2004</u>
Revenue refunding bonds: Series 2002	\$ 60,150,000	\$ —	\$ —	\$ 60,150,000
Revenue refunding bonds: Series 2001	76,330,000	—	8,010,000	68,320,000
	<u>\$ 136,480,000</u>	<u>\$ —</u>	<u>\$ 8,010,000</u>	<u>\$ 128,470,000</u>

Palm Beach County Department of Airports  
 Schedule of Bonds Issued, Paid, Purchased or Redeemed  
 For the Year Ended September 30, 2003

<u>Airport System Revenue Refunding Bond</u>	<u>Bonds Outstanding September 30, 2002</u>	<u>Bonds Issued</u>	<u>Bonds Paid, Purchased or Redeemed</u>	<u>Bonds Outstanding September 30, 2003</u>
Revenue refunding bonds: Series 2002	\$ 60,150,000	\$ —	\$ —	\$ 60,150,000
Revenue refunding bonds: Series 2001	83,965,000	—	7,635,000	76,330,000
	<u>\$ 144,115,000</u>	<u>\$ —</u>	<u>\$ 7,635,000</u>	<u>\$ 136,480,000</u>

# Compliance Reports

## Report of Independent Certified Public Accountants on Bond Resolution Compliance

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

We have audited, in accordance with auditing standards generally accepted in the United States, the statements of net assets of the Palm Beach County Department of Airports as of September 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated January 6, 2005.

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

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

*Ernst & Young LLP*

January 6, 2005

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

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

We have audited the accompanying statement of net assets of the Palm Beach County Department of Airports as of September 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated January 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

**Compliance and Other Matters**

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

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

*Ernst + Young LLP*

January 6, 2005