McGladrey & Pullen
Certified Public Accountants

Palm Beach County, Florida
Department of Airports

Financial Report
September 30, 2007 and 2006

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Palm Beach County, Florida Department of Airports (the "Department") as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Department's 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Department, 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, as of September 30, 2007 and 2006, the changes in its financial position and where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2007 and 2006, and its change in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

McGladrey & Pullen, LLP

West Palm Beach, Florida
March 19, 2008

Management's Discussion and Analysis

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, 2007. 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 2007 results showed a 2.9% increase in enplanements (departing passengers). Enplanements for the fiscal year totaled 3,502,394.

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

The following table shows a summary of various activities:

	2007	2006	2005
Enplanements	3,502,394	3,404,628	3,521,361
% Increase/(Decrease)	2.87%	(3.31%)	9.50%
Air Carrier Operations	72,051	67,045	69,737
% Increase/(Decrease)	7.47%	(3.86%)	1.81%
Landed Weight	4,359,597	4,289,454	4,547,543
% Increase/(Decrease)	1.64%	(5.68%)	7.59%
Cargo Tons	16,174	19,340	19,514
% Increase/(Decrease)	(16.37)%	(0.90%)	(3.27%)
Parking Transactions	1,207,926	1,275,944	1,393,944
% Increase/(Decrease)	(5.33)%	(8.47%)	7.80%

Management's Discussion and Analysis

Financial Operations Highlights

Financial impacts are highlighted as follows:

Changes between 2007 and 2006

- Operating revenues rose by 3%, increasing from $64.2 million to $66 million. Components include an increase in parking revenues of $1 million and an increase in landing fee revenue of $400,000. Both revenue increases were attributable to rate increases over the prior year.
- Operating expenses increased by 3%, totaling $41 million in fiscal year 2007. Maintenance expenses increased by 11% due to additional equipment maintenance (loading bridges, baggage systems, escalators, vehicles) and additional janitorial costs due to increased terminal areas to maintain.
- Operating income after depreciation remained at $5.1 million.
- Nonoperating revenues from Passenger Facility Charges ("PFC") increased from $9.4 million to $10.7 million.

Changes between 2006 and 2005

- Operating revenues rose by 5.2%, increasing from $61.1 million to $64.2 million. Components include an increase in concession revenues of $3.4 million, which includes parking, car rental and terminal concessions. Increased concessions revenue was due to increased parking rates enacted during fiscal year 2006. Rental revenue increased $1.2 million due to increased rental rates. Landing fee revenue decreased by approximately $900,000 due to decreased landing fee rates and decreased landings.
- Operating expenses increased by 4.8%, totaling $39.7 million in fiscal year 2006. Utilities expenses increased by 26% due to increased electric rates assessed by the provider. Utilities including electric, water, and communications expenses totaled $3.6 million in fiscal year 2006.
- Operating income before depreciation increased by 5.8%, totaling $24.5 million in fiscal year 2006.

- The change in net assets for fiscal year 2006 totaled $8.1 million, a substantial decrease from $20.8 million in fiscal year 2005. The decrease was due to the loss on the sale of land known as the Hillcrest property of $32.2 million. The decrease was offset by contributions of buildings and hangers from fixed based operators.

	2007	2006	2005
Operating revenues	$ 66,026,155	$ 64,225,057	$ 61,061,150
Operating expenses	40,944,345	39,729,764	37,908,547
Operating income before depreciation and amortization and other nonoperating income and expenses	25,081,810	24,495,293	23,152,603
Depreciation and amortization	20,012,057	19,399,196	18,860,977
Operating income (loss)	5,069,753	5,096,097	4,291,626
Other nonoperating income and expenses, net including capital contributions and transfers and special items	19,559,754	3,000,534	16,556,182
Change in net assets	$ 24,629,507	$ 8,096,631	$ 20,847,808

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 $315 million at September 30, 2007 and $290 million at September 30, 2006. A condensed summary of the Department's net assets at September 30 is shown below:

	2007	2006	2005
Assets:			
Current and other assets	$ 137,710,274	$ 178,362,677	$ 117,490,466
Capital assets	361,665,189	296,222,910	299,949,563
Total assets	499,375,463	474,585,587	417,440,029
Liabilities:			
Current and other liabilities	29,328,902	22,330,018	22,429,666
Long-term debt outstanding	155,293,621	162,132,136	112,983,561
Total liabilities	184,622,523	184,462,154	135,413,227
Net Assets:			
Invested in capital assets, net of debt	204,190,735	183,413,340	180,055,892
Restricted	58,584,293	49,064,442	52,576,285
Unrestricted	51,977,912	57,645,651	49,394,625
Total net assets	$ 314,752,940	$ 290,123,433	$ 282,026,802

A significant portion of the Department's net assets each year (65% at September 30, 2007) represents its investment in capital assets (e.g., land, buildings, improvements and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Department uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Department's net assets (19% at September 30, 2007) 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 (16% at September 30, 2007) may be used to meet any of the Department's ongoing obligations.

Financial Position, 2007 versus 2006

Current and other assets decreased in 2007 due to the construction of the long term parking garage which reduced cash balances. The increase in capital assets is a result of the construction in progress amounts accumulated from that construction project. The garage is expected to be completed in early 2008.

Financial Position, 2006 versus 2005

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

Airline-Airport Use and Lease Agreement

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

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

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

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

	2007	2006	2005
Landing fee (per 1,000 lbs MGLW)	$1.108	$1.032	$1.115
Average terminal rate (per square foot)	55.92	58.78	55.47
Apron fee rental (per linear foot)	251.17	199.82	194.07
Loading bridge rental (annual rate)	66,249	68,333	66,240
(includes preconditioned air and 400 htz power systems)			
Airline cost per enplanement	5.93	6.32	6.54

Airline Bankruptcy and Changing Market Share at PBIA

In prior years, three significant airline companies filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code; USAirways, Delta and Northwest Airlines filed with prepetition debts amounting to approximately $791,000 in total. Pursuant to the plans of reorganization from the respective companies, as approved by the US Bankruptcy Court, pro rata shares of common stock were issued to general unsecured creditors, including the Department. The valuation of this distribution as of September 30, 2007 for all three companies combined amounted to $323,000. The Department considers it unlikely that further material prepetition debts will be paid. Accordingly, The Department has written off the remaining prepetition debt to the allowance for doubtful accounts.

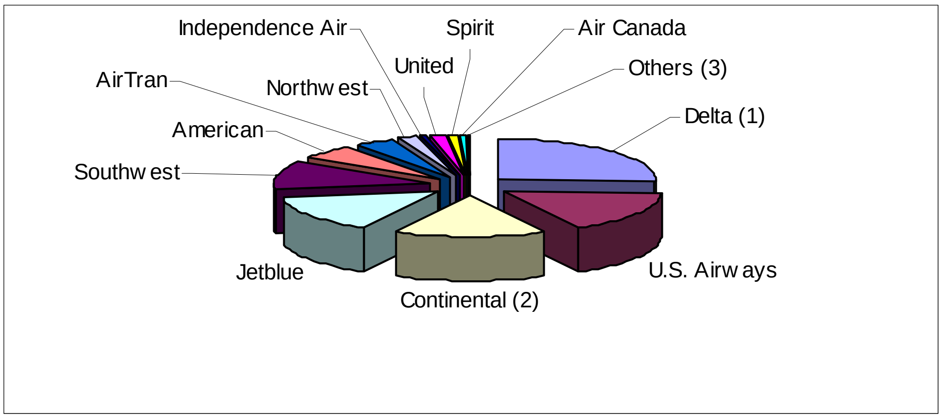
In fiscal 2005, the Department established a large allowance for doubtful accounts (approximately $1.4 million) to account for this uncertainty and the possibility of other business defaults. Under the terms and conditions of the Airline agreement, bad debt expense is included in the rate base and recovered from airlines through the system of rates and charges. The Department believes the position with debtors has improved, and has adjusted the allowance for doubtful accounts down; accordingly, this adjustment will have a positive effect on revenues and likewise airline rates by lowering those charges slightly.

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

While Delta and U.S. Airways have historically held a market share in excess of 50% at PBIA, current trends show a diversity of market share which strengthens PBIA's financial stability. For fiscal 2007, Delta accounted for 22% (top carrier) and JetBlue accounted for 17% (second leading carrier) of total traffic. US Airways, Continental, and Southwest accounted for the next three positions, in that order. This trend towards diversity in market share is expected to continue.

Airline Market Share and Passenger Information

Total passenger traffic is presented below for fiscal year 2007 by airline, showing market share at Palm Beach International Airport and comparisons to fiscal year 2006:

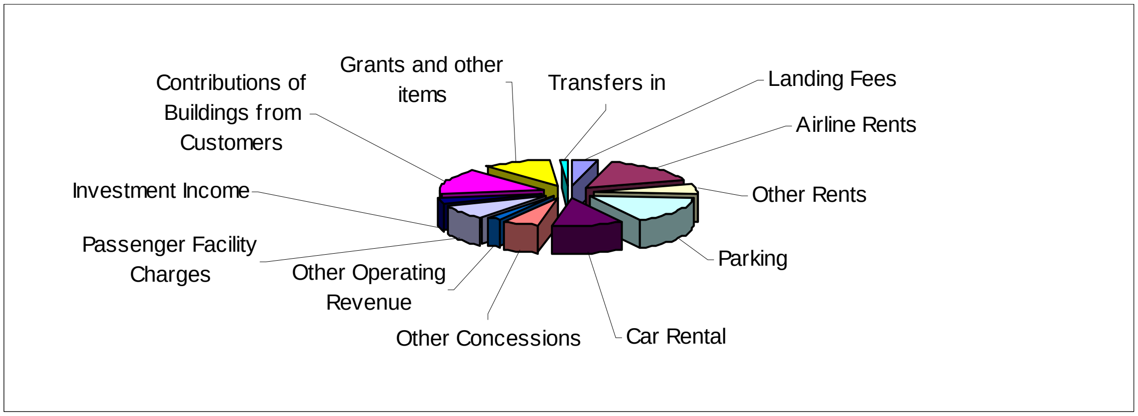


	2007	Change from 2006	% Change from 2006
Delta (1)	1,579,000	(148,357)	(9)%
Jetblue	1,202,116	212,573	21%
U.S. Airways	1,139,210	8,652	1%
Continental (2)	1,035,674	(28,564)	(3)%
Southwest	839,016	43,018	5%
AirTran	396,782	136,768	53%
American	321,590	(72,799)	(18)%
United	168,586	47,680	39%
Northwest	119,176	(16,303)	(12)%
Spirit	78,288	12,177	18%
Air Canada	45,628	13,421	42%
Independence Air	-	(33,718)	(100)%
Others (3)	42,211	16,646	65%
Total	6,967,277	191,194	3%

Airline Consolidation Information:
(1) Delta includes Delta, Song, Comair and Chataqua
(2) Continental includes Continental and Gulfstream
(3) Others include Atlantic Southeast, Bahamas Air, Westjet, Chalks, Gold Transportation, and Canjet

Revenues

The following chart and table summarize revenues for the year ended September 30, 2007:

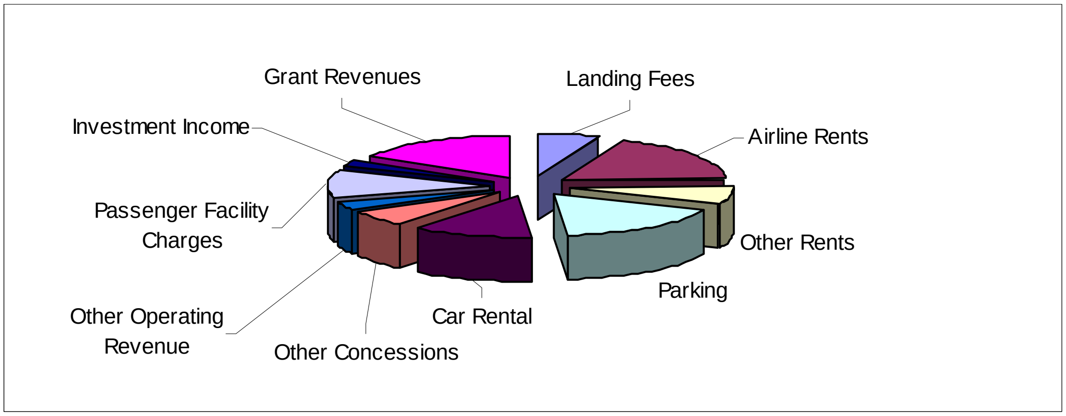


	2007	Percent of Total	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
Operating:				
Landing fees	$ 4,932,473	5%	$ 428,168	10%
Airline rents	14,548,609	16%	(1,091,628)	(7)%
Other rents	7,996,932	9%	419,548	6%
Parking	17,738,639	20%	1,036,176	6%
Car rental concessions	11,709,107	13%	143,336	1%
Other concessions	6,399,253	7%	572,512	10%
Other operating revenue	2,701,142	3%	292,985	12%
Total operating revenues	66,026,155	73%	1,801,097	3%
Other Sources:				
Passenger facility charges	10,663,881	12%	1,232,464	13%
Investment income	5,728,714	6%	1,851,558	48%
Contributions of buildings from customers	-	0%	(15,578,438)	-
Grants and other items	8,325,745	9%	(3,131,800)	(27)%
Transfers in	28,033	0%	(1,026,967)	-
Total other sources	24,746,373	27%	(16,653,183)	(40)%
Total	$ 90,772,528	100%	$ (14,852,086)	(14)%

Parking revenue increased approximately $1 million due to an increase in parking rates during the prior fiscal year, providing fiscal year 2007 with a full 12 months of rate increase versus a partial year of rate increase in fiscal year 2006. Landing fees increased due to increased rates.

Revenues

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

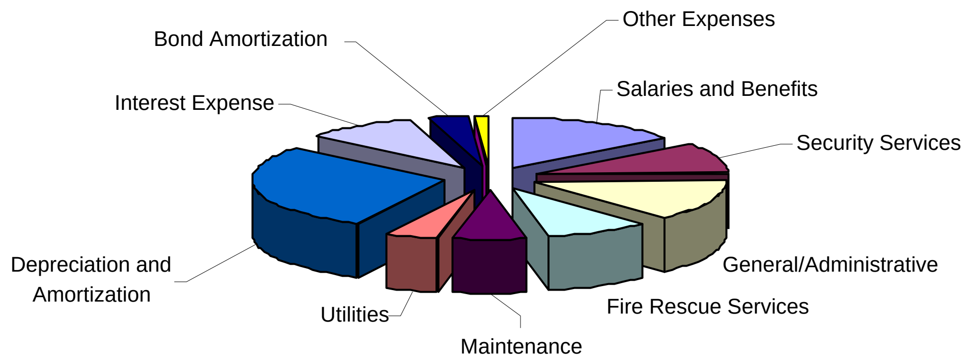


	2006	Percent of Total	Increase/ (Decrease) from 2005	% Increase/ (Decrease) from 2005
Operating:				
Landing fees	$ 4,504,305	4%	$ (900,450)	(17)%
Airline rents	15,640,237	15%	(465,583)	(3)%
Other rents	7,577,384	7%	1,649,018	28%
Parking	16,702,463	16%	1,983,578	13%
Car rental concessions	11,565,771	11%	1,192,312	11%
Other concessions	5,826,741	6%	79,227	1%
Other operating revenue	2,408,157	2%	(374,194)	(13)%
Total operating revenues	64,225,058	61%	3,163,908	5%
Other Sources:				
Passenger facility charges	9,431,417	9%	(202,565)	(2)%
Investment income	3,877,156	4%	1,950,785	101%
Contributions of buildings from customers	15,578,438	15%	15,578,438	-
Grants and other items	11,457,545	10%	(2,799,591)	(20)%
Transfers in	1,055,000	1%	1,055,000	-
Total other sources	41,399,556	39%	15,582,067	60%
Total	$ 105,624,614	100%	$ 18,745,975	22%

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

Expenses

The following chart and table summarize expenses for the year ended September 30, 2007:

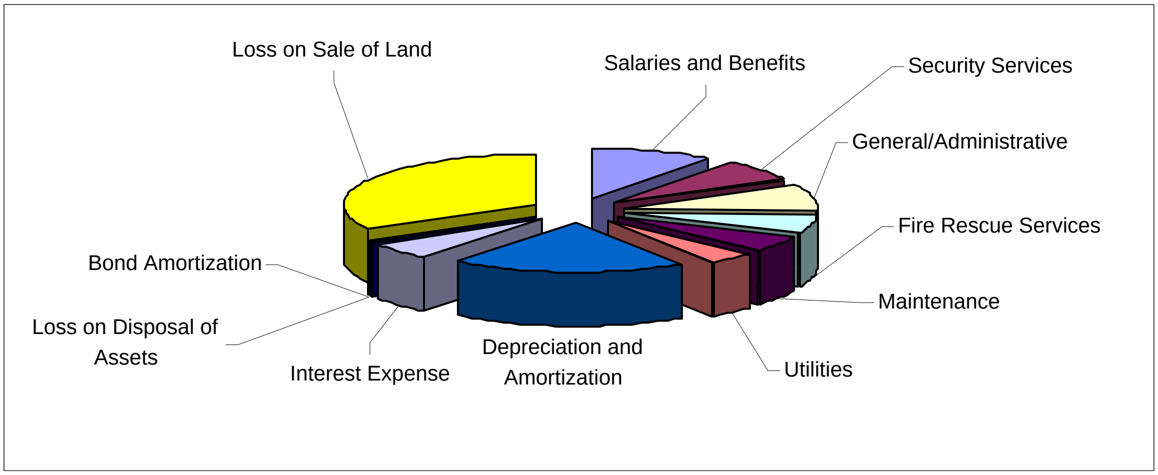


	2007	Percent of Total	Increase/ (Decrease) from 2006	% Increase/ (Decrease) from 2006
Operating:				
Salaries and benefits	$ 10,602,979	16%	$ 585,073	6%
Security services	7,019,045	11%	195,296	3%
General/administrative	8,074,988	12%	(570,823)	(7)%
Fire rescue services	6,065,336	9%	287,736	5%
Maintenance	5,354,959	8%	518,075	11%
Utilities	3,827,038	6%	199,224	5%
Total operating	40,944,345	62%	1,214,581	3%
Depreciation and amortization	20,012,057	30%	612,861	3%
Nonoperating:				
Interest expense	5,033,573	8%	(403,064)	(7)%
Loss on disposal of assets	-	0%	(573,020)	(100)%
Bond amortization	153,046	0%	(22,318)	(13)%
Loss on sale of land	-	0%	(32,214,001)	0%
Total nonoperating	5,186,619	38%	(33,212,403)	(86)%
Total expenses	$ 66,143,021	100%	$ (31,384,961)	(32)%

Maintenance expenses increased by 11% due to additional equipment maintenance and additional janitorial costs due to increased terminal areas to maintain.

Expenses

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



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

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:

	2007	2006	2005
Cash flow from operating activities	$ 25,658,694	$ 22,685,310	$ 24,478,456
Cash flow from investing activities	5,824,505	18,194,332	2,394,970
Cash flow from noncapital financing	(219,600)	1,223,704	414,317
Cash flow from capital and related financing activities	(70,917,171)	39,681,766	(24,566,982)
Net (decrease) increase in cash and cash equivalents	(39,653,572)	81,785,112	2,720,761
Cash and cash equivalents:			
Beginning of year	168,511,241	86,726,129	84,005,368
End of year	$ 128,857,669	$ 168,511,241	$ 86,726,129

Capital Acquisitions and Construction Activities

During 2007, the Department expended $79.0 million on capital activities. Completed projects during 2007 totaling $3.9 million were transferred from construction-in-progress to their respective capital accounts. The major project during fiscal year 2007 was construction of an additional long term parking garage which is scheduled for completion in early calendar year 2008. The major completed projects and acquisitions were:

Terminal Loading Bridges	$2.27 Million
Land Acquisition for Noise Abatement	2.05 million

During 2006, the Department expended $23.5 million on capital activities. Completed projects during 2006 totaling $8.2 million were transferred from construction-in-progress to their respective capital accounts. The major completed projects and acquisitions were:

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

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

In general, acquisitions are funded using a variety of financing sources, including Federal Grants, State Grants, Airport revenues, Passenger Facility Charges, debt issuances and Revenue Bonds.

Long-Term Debt

The Department had outstanding long-term debt of $154.3 million and $161.1 million as of September 30, 2007 and 2006. 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 2007:

	Total Outstanding 10/01/2006	Bonds Issued	Principal Paid	Total Outstanding 09/30/2007
Revenue Refunding Bonds:				
Series 2001	$ 36,040,000	$ -	$ 6,515,000	$ 29,525,000
Series 2002	45,410,000	-	-	45,410,000
Series 2006A	69,080,000	-	-	69,080,000
Series 2006B	16,855,000	-	-	16,855,000
	$ 167,385,000	$ -	$ 6,515,000	160,870,000
Less current maturities				6,790,000
Long-term portion				154,080,000
Add unamortized premium				2,240,125
Less unamortized loss on refunding				(2,055,842)
Total				$ 154,264,283

The following table reflects the debt activities that occurred during Fiscal Year 2006:

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

The County issued revenue bonds during fiscal year 2006 to construct additional long-term parking facilities for customers. Bond proceeds for construction were $69.1 million, and an additional $16.9 million was issued to refund existing debt. See Note 6, Revenue Bonds and Loan Payable in the notes to the financial statements for additional information.

The complete Official Statement of Airport System Revenue Bonds, Series 2006A and Series 2006B is available at the Departments website, www.pbia.org.

Credit Ratings and Bond Insurance

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

Passenger Facility Charges

The Department, as of September 30, 2007 has collected $122 million in Passenger Facility Charges ("PFC") Revenues, including interest on PFC cash balances, since the inception of the program in April 1, 1994. The Department has capital expenditures from PFC sources totaling $92.2 million over the same time period. As of September 30, 2007, the Department was authorized to collect $124.3 million in PFC revenues. On October 9, 2007 the Federal Aviation Administration approved an amendment to the PFC collection authorization revising the total collection authority to $144.6 million. The amendment also allowed the Department to increase the PFC fee from $3.00 to $4.50 effective July 2008.

Significant Transactions, Sale of Hillcrest Land

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

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

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

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

Economic Factors and Next Year's Budgets and Rates

- Palm Beach County has seen significant growth in population and housing in recent years, although during the last 12 months, this economic sector has slowed.

- 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. Additionally the Max Plank Society, another well known bio-tech concern, has announced plans to locate a facility in Palm Beach County. Port St. Lucie has also announced significant plans from bio-tech companies including the Torrey Pines Institute for Molecular Studies. These concerns require air transportation and may drive additional growth at the airport in future years.

- Palm Beach County Tourism has remained strong and continues to show increased occupancy rates in local hotels. Completion of the Convention Center will likely attract more tourism/convention trade to the County.

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

The Department of Airport's 2008 operating expense budget totals $48.6 million, not including interfund transfers and reserves, which represents an increase of 10% over the prior year budget. The Department's 2008 budget includes an increase of 9 positions for a total complement of 159 positions. The new positions are primarily maintenance functions. Budgetary changes impact airline rates. Fiscal 2008 terminal rates average $55.74 per square foot (a slight decrease from 2007); landing fees are $1.116 per 1,000 lbs. of landed weight (an increase of less than 1%). Airline cost per enplanement for fiscal year 2008 is expected to decrease slightly to approximately $5.91.

Request for Information

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

Palm Beach County Department of Airports

Statements of Net Assets
September 30, 2007 and 2006

Assets	2007	2006
Current Assets:		
Pooled cash and cash equivalents	$ 47,938,212	$ 45,294,887
Accounts receivable, less allowance for doubtful accounts of $392,220 and $1,385,100 in 2007 and 2006, respectively	1,138,965	2,024,225
Government grants receivable	1,200,320	2,404,404
Due from other governments	10,829	140,775
Current portion of other receivable	101,379	95,792
Due from other funds	275,101	27,468
Inventories	982,480	976,622
Other current assets	1,073,506	979,595
Total current assets	52,720,792	51,943,768
Restricted assets:		
Pooled cash and cash equivalents	50,311,427	45,318,403
Nonpooled cash and cash equivalents	30,608,030	77,897,951
Accounts receivable, less allowance for doubtful accounts of $1,500 and $5,751 in 2007 and 2006, respectively	1,175,640	13,213
Total restricted assets	82,095,097	123,229,567
Capital assets:		
Land	94,512,411	92,217,590
Construction in progress	95,585,874	20,374,544
Depreciable capital assets, net of accumulated depreciation	171,566,904	183,630,776
Total capital assets	361,665,189	296,222,910
Other noncurrent assets:		
Deferred bond issuance costs	2,074,826	2,268,405
Other receivable, net of current portion and discount of $225,783 and $282,888 in 2007 and 2006, respectively	819,559	920,937
Total other noncurrent assets	2,894,385	3,189,342
Total assets	$ 499,375,463	$ 474,585,587

See Notes to Financial Statements.

	2007	2006
Liabilities and Net Assets		
Current liabilities:		
Accounts and contracts payable	$ 9,107,254	$ 2,527,311
Compensated absences payable	100,354	76,273
Unearned revenue	650,638	693,787
Due to other funds	105,894	123,023
Due to State of Florida	1,635,369	1,635,980
Due to other governments	63,159	84,219
Other current liabilities	483,217	687,437
Total current liabilities	12,145,885	5,828,030
Liabilities payable from restricted assets:		
Accounts and contracts payable	5,314,737	5,343,160
Security deposits	297,954	297,183
Due to State of Florida	310,000	310,000
Interest payable on revenue bonds	4,220,326	3,786,645
Loan payable	250,000	250,000
Current maturities of revenue bonds	6,790,000	6,515,000
Total liabilities payable from restricted assets	17,183,017	16,501,988
Long-term liabilities:		
Compensated absences payable	1,029,338	1,037,320
Revenue bonds payable (less current maturities)	154,264,283	161,094,816
Total long-term liabilities	155,293,621	162,132,136
Total liabilities	184,622,523	184,462,154
Net assets:		
Invested in capital assets, net of related debt	204,190,735	183,413,340
Restricted:		
Passenger facility charges	36,835,101	31,722,385
Debt service	7,294,261	5,678,634
Renewal and replacement	2,642,313	3,966,615
Operation and maintenance	7,073,585	2,441,293
Capital outlay	4,739,033	5,255,515
	58,584,293	49,064,442
Unrestricted	51,977,912	57,645,651
Total net assets	$ 314,752,940	$ 290,123,433

Palm Beach County Department of Airports

Statements of Revenues, Expenditures and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Rentals	$ 22,545,541	$ 23,217,620
Concessions	35,846,999	34,241,386
Landing fees	4,932,473	4,504,305
Other	2,701,142	2,261,746
Total operating revenues	66,026,155	64,225,057
Operating expenses:		
Employee compensation and benefits	10,602,979	10,017,906
General and administrative	8,074,988	8,645,811
Maintenance	5,354,959	4,836,884
Contracted security services	7,019,045	6,823,749
Contracted fire-rescue services	6,065,336	5,777,600
Utilities	3,827,038	3,627,814
Total operating expenses before depreciation and amortization	40,944,345	39,729,764
Operating income before depreciation and amortization	25,081,810	24,495,293
Depreciation and amortization	20,012,057	19,399,196
Operating income	5,069,753	5,096,097
Nonoperating revenues (expenses):		
Investment income	5,728,714	3,877,156
Passenger facility charges	10,663,881	9,431,417
Grant revenue	975,550	1,968,370
Interest expense	(5,033,573)	(5,436,637)
Gain/(loss) on disposal of capital assets	20,324	(43,653)
Impairment loss	-	(529,367)
Amortization of revenue bond costs	(153,046)	(175,364)
Other revenues (expenses)	788,502	2,050
Total nonoperating revenues (expenses), net	12,990,352	9,093,972
Income before contributions, transfers and special items	18,060,105	14,190,069
Contributions of buildings and hangars	-	15,578,438
Airport improvement grants	6,541,369	9,487,125
Transfers in	28,033	1,055,000
Income before special items	24,629,507	40,310,632
Special Item:		
Loss on sale of land	-	(32,214,001)
Change in net assets	24,629,507	8,096,631
Net assets at beginning of year	290,123,433	282,026,802
Net assets at end of year	$ 314,752,940	$ 290,123,433

See Notes to Financial Statements.

Palm Beach County Department of Airports

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities:		
Cash received from customers	$ 67,858,381	$ 62,734,338
Cash payments to vendors for goods and services	(15,346,028)	(13,764,494)
Cash payments to employees for services	(10,587,648)	(9,967,793)
Cash payments to other funds	(16,278,116)	(16,318,784)
Other receipts	12,105	2,043
Net cash provided by operating activities	25,658,694	22,685,310
Cash Flows From Noncapital Financing Activities:		
Transfer (to) from other County funds	(219,600)	1,027,532
Operating grants received	-	196,172
Net cash (used for) provided by noncapital financing activities	(219,600)	1,223,704
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(79,002,277)	(23,502,441)
Proceeds from revenue bonds issued	-	86,383,914
Proceeds from sale of capital assets	84,341	3,262,340
Insurance proceeds	776,397	-
Proceeds from loan	-	250,000
Repayment on loan payable	-	(100,000)
Principal repayment on revenue bonds	(6,515,000)	(38,610,000)
Passenger facility charges received	9,509,241	9,431,417
Receipt of capital grants and reimbursements	8,830,019	9,778,259
Bond issue costs paid	-	(2,401,537)
Interest and fiscal charges paid	(4,599,892)	(4,810,186)
Net cash (used for) provided by capital and related financing activities	(70,917,171)	39,681,766
Cash Flows From Investing Activities:		
Proceeds from sale and maturity of investments	-	14,017,330
Receipt of repayments on other receivables	152,896	90,513
Interest received on investments	5,671,609	4,086,489
Net cash provided by investing activities	5,824,505	18,194,332
Net (decrease) increase in cash and cash equivalents	(39,653,572)	81,785,112
Cash and cash equivalents at beginning of year (including $123,216,354 and $50,674,239 in restricted accounts)	168,511,241	86,726,129
Cash and cash equivalents at end of year (including $80,919,457and $123,216,354 in restricted accounts)	$ 128,857,669	$ 168,511,241

(Continued)

Palm Beach County Department of Airports

Statements of Cash Flows (Continued)
Years Ended September 30, 2007 and 2006

	2007	2006
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 5,069,753	$ 5,096,097
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	20,012,057	19,399,196
Provision for doubtful accounts	(997,131)	(6,284)
Other revenue/ (expense)	12,105	2,043
Changes in assets and liabilities:		
Accounts receivable	1,874,604	(985,427)
Inventories	(5,858)	36,139
Other current assets	(93,911)	(554,006)
Accounts and contracts payable	35,444	124,183
Compensated absences payable	16,099	7,256
Unearned revenues	(43,149)	(554,432)
Due to other funds	(6,080)	111,974
Other current liabilities	(216,010)	(40,569)
Security deposits	771	49,140
Total adjustments	20,588,941	17,589,213
Net cash provided by operating activities	$ 25,658,694	$ 22,685,310
Supplemental Disclosures of Noncash Capital and Related Financing Activities		
Amortization of intangible assets	$ 343,512	$ 310,232
Amortization of deferred issuance costs	193,579	424,152
Amortization of premium on bonds	469,471	1,447,937
Purchases of capital assets in accounts and contracts payable	6,516,076	1,362,414
Contributions of capital assets, including customers	-	15,578,438
Disposition of fully depreciated capital assets	3,867,625	1,935,933
Loss on sale of land	-	(32,214,001)

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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 cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States.

B. Basis of Presentation

The Department of Airports operates the Airports as an enterprise fund of the County. An enterprise fund is used to account for the financing of services to the general public where all or most of the costs 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 on the accrual basis subject to the legal and contractual eligibility requirements of the grant program.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

D. Cash and Cash Equivalents

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

E. Investments

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

F. Accounts Receivable

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

Note 1. Summary of Significant Accounting Policies (Continued)

The Department of Airports purchases certain residential parcels of land that are considered to be within the area designated as "noise-impacted" surrounding the Airports. The costs of acquisition, structure demolition and relocation of residents in this area are eligible under the Federal Aviation Administration ("FAA") Noise Abatement Grant Program for reimbursement. The FAA funds approximately 80% of these costs with the remainder financed by the State of Florida and the Department of Airports. The FAA retains a continuing interest in the properties equal to its original funding percentage and restricts the use of such properties to purposes which are compatible with noise levels associated with the operation of Airports. The total cost associated with acquiring these parcels of land are $48,905,527 and $46,862,004 at September 30, 2007 and 2006, respectively, and is recorded under the caption "land" in the accompanying statements of net assets.

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

I. Intangible Assets

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

J. Security Deposits

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

K. 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 are designated primarily for payment of debt service of approximately $30,608,000 and $75,125,000 at September 30, 2007 and 2006, respectively, and the retention of the operation and maintenance reserve of $7,371,000 and $10,944,000 at September 30, 2007 and 2006, respectively, all as defined in the Resolution. Assets that are subject to FAA restrictions include restricted cash and cash equivalents of approximately $4,066,000 and $4,769,000 at September 30, 2007 and 2006, respectively, and results from the sale of excess land previously contributed by the FAA and not required for aviation purposes. These assets are restricted until appropriated for FAA approved projects. In addition, the Department of Airports also has restricted cash and cash equivalents of approximately $35,680,000 and $31,722,000 at September 30, 2007 and 2006, respectively, for passenger facility charge revenues that are restricted by the FAA to capital projects.

Note 1. Summary of Significant Accounting Policies (Continued)

M. Amortization

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

N. Interest

Interest costs are expensed or capitalized in accordance with the provisions of 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 $8,452,000 and $5,436,637 for the fiscal year ended September 30, 2007 and 2006, respectively, which $3,418,000 and $1,272,434 was recorded as capitalized interest.

O. Compensated Absences

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

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

P. Passenger Facility Charges

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.

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

On October 9, 2007 the Federal Aviation Administration approved an amendment to the PFC collection authorization revising the total collection authority to $144.6 million. The amendment also allowed the Department to increase the PFC fee from $3.00 to $4.50 effective July 2008.

Q. Capital Contributions

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

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.

Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of the following at September 30, 2007 and 2006:

	2007	2006
County Internal Investment Pool	$ 98,096,288	$ 90,612,185
DBA – Money Market Account	30,760,281	77,897,956
Petty cash	1,100	1,100
Total	$ 128,857,669	$ 168,511,241
Unrestricted cash and cash equivalents	$ 47,938,212	$ 45,294,887
Restricted cash and cash equivalents	80,919,457	123,216,354
Total	$ 128,857,669	$ 168,511,241

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 $1.75 billion and $1.83 billion as of September 30, 2007 and 2006, respectively, of which approximately 86% and 89%, respectively, are invested in U.S. Government and Agency obligations. The County's investment policy for this pool requires that all securities be insured or registered in the name of the County and held by a third party custodial institution, with capital and surplus stock of at least $500 million and a separate custody account at the Federal Reserve Bank that is restricted for the safekeeping of County-owned securities. Almost all remaining amounts at September 30, 2007 and 2006 were invested in the Local Government Surplus Funds Trust Fund investment pool managed by the Florida State Treasurer ("State Treasurer") and the Florida Local Government Investment Trust, both of which are considered 2a-7 like pools. The equity in the County pooled cash system is available to the Department of Airports on a demand basis. See the County's Comprehensive Annual Financial Report for disclosures relating to its interest rate risk, credit risk, custodial credit risk and concentration of credit risk (see Note 13).

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

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

Investments

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

Note 3. Capital Assets

	Balance at October 1, 2006	Additions	Retirements	Transfers	Balance at September 30, 2007
Depreciable capital assets					
Buildings	$ 227,571,691	$ -	$ 70,268	$ 3,073,160	$ 230,574,583
Improvements other than buildings	167,371,156	-	26,098	789,127	168,134,185
Furniture, fixtures and equipment	30,380,414	4,149,914	3,901,793	-	30,628,535
Intangible – easement rights	13,740,457	-	-	-	13,740,457
Total depreciable capital assets	439,063,718	4,149,914	3,998,159	3,862,287	443,077,760
Less accumulated depreciation					
Buildings	107,564,006	11,622,855	30,356	-	119,156,505
Improvements other than buildings	119,530,479	6,641,490	26,098	-	126,145,871
Furniture, fixtures and equipment	26,554,295	1,404,201	3,877,690	-	24,080,806
Intangible – easement rights	1,784,162	343,512	-	-	2,127,674
Total accumulated depreciation	255,432,942	20,012,058	3,934,144	-	271,510,856
Depreciable capital assets, net of accumulated depreciation	183,630,776	(15,862,144)	64,015	3,862,287	171,566,904
Nondepreciable capital assets					
Land	92,217,590	2,294,821	-	-	94,512,411
Construction in progress	20,374,544	79,073,617	-	(3,862,287)	95,585,874
Total capital assets	$ 296,222,910	$ 65,506,294	$ 64,015	$ -	$ 361,665,189

Note 3. Capital Assets (Continued)

	Balance at October 1, 2005	Additions	Retirements	Transfers	Balance at September 30, 2006
Depreciable capital assets					
Buildings	$ 208,476,363	$ 15,598,717	$ 1,358,218	$ 4,854,829	$ 227,571,691
Improvements other than buildings	166,568,266	75,548	184,512	911,854	167,371,156
Furniture, fixtures and equipment	31,414,252	772,521	1,806,359	-	30,380,414
Intangible – easement rights	13,740,457	-	-	-	13,740,457
Total depreciable capital assets	420,199,338	16,446,786	3,349,089	5,766,683	439,063,718
Less accumulated depreciation					
Buildings	97,677,875	10,713,140	827,009	-	107,564,006
Improvements other than buildings	112,825,385	6,865,959	160,865	-	119,530,479
Furniture, fixtures and equipment	26,816,015	1,476,587	1,738,307	-	26,554,295
Intangible – easement rights	1,440,650	343,512	-	-	1,784,162
Total accumulated depreciation	238,759,925	19,399,198	2,726,181	-	255,432,942
Depreciable capital assets, net of accumulated depreciation	181,439,413	(2,952,412)	622,908	5,766,683	183,630,776
Nondepreciable capital assets					
Land	126,136,586	-	35,004,001	1,085,005	92,217,590
Construction in progress	4,673,372	22,552,860	-	(6,851,688)	20,374,544
Total capital assets	$ 312,249,371	$ 19,600,448	$ 35,626,909	$ -	$ 296,222,910

Note 4. Leases, as Lessor

The Department of Airports leases a major portion of its property to airlines and concessionaires. Certain of the concessionaire leases provide for minimum rentals plus a contingency portion specified as a percentage of the tenants' gross revenues. Contingent rental income under such arrangements amounted to approximately $5,876,000 and $5,210,000 for the years ended September 30, 2007 and 2006, respectively. All Department of Airports' leases are operating leases.

Note 4. Leases, as Lessor (Continued)

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

Year Ending September 30,	
2008	$ 33,630,702
2009	20,705,043
2010	20,383,408
2011	20,397,253
2012	5,335,059
Thereafter	57,327,562
	$ 157,779,027

A schedule of the carrying value of property held for lease, by major classification, as of September 30, 2007 and 2006, is as follows:

	2007	2006
Buildings	$ 203,851,020	$ 193,391,527
Less accumulated depreciation	100,951,950	89,194,263
	102,899,070	104,197,264
Land	5,742,182	5,742,182
Property held for lease, net	$ 108,641,252	$ 109,939,446

Note 5. Due to State of Florida

The Department of Airports entered into joint participation agreements with the Florida Department of Transportation ("FDOT") and received State financial assistance for the acquisition of land for the North County Airport. Pursuant to the terms of the Joint Participation Agreements and Florida Statutes, the FDOT advanced up to 75% of the cost of the land acquisition and is to be reimbursed for all amounts in excess of 50% of eligible project costs which are not funded by the Federal Government. Reimbursements are due to the FDOT when Federal funds are received or within ten years after the date of the land acquisition, whichever is earlier. The amount to be reimbursed to the FDOT related to the advanced funds is $1,624,400 as of September 30, 2007 and 2006, because the ten-year period has expired. Management of the Department of Airports is currently in negotiations with the FDOT regarding the ultimate disposition of this advance.

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

Note 6. Revenue Bonds and Loan Payable

Revenue bonds payable by the Department of Airports consist of the following as of September 30, 2007 and 2006:

	2007	2006
Series 2006A Revenue Bonds, principal due annually, in various amounts, beginning October 1, 2021 through October 1, 2036, with interest from 4.7% to 5.0% payable semi-annually on October 1 and April 1.	$ 69,080,000	$ 69,080,000
Series 2006B Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2015 through October 1, 2020, with interest at 5.0% payable semi-annually on October 1 and April 1.	16,855,000	16,855,000
Series 2002 Revenue Refunding Bonds, principal due annually, in various amounts, beginning October 1, 2011 through October 1, 2014, with interest at 5.75% payable semi-annually on October 1 and April 1.	45,410,000	45,410,000
Series 2001 Revenue Refunding Bonds, principal due annually, in various amounts through October 1, 2010, with interest from 4.0% to 5.5% payable semi-annually on October 1 and April 1.	29,525,000	36,040,000
	160,870,000	167,385,000
Less current portion	6,790,000	6,515,000
	154,080,000	160,870,000
Unamortized bond premium	2,240,125	2,709,596
Unamortized loss on refunding	(2,055,842)	(2,484,780)
Long-term portion	$ 154,264,283	$ 161,094,816

Series 2006 A and B

Series 2006A, $69,080,000 Airport System Revenue Bonds, dated May 17, 2006; proceeds are to be used for the construction of an additional 3,200 space long-term parking garage. Construction is necessary to meet additional passenger traffic demands for parking facilities at Palm Beach International Airport. The new garage structure was partially open in December 2007 and is expected to be fully operational January 2008.

Note 6. Revenue Bonds and Loan Payable (Continued)

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

Series 2006B, on July 3, 2006, the Department issued $16,855,000 Revenue Refunding Bonds, Series 2006B with an effective interest rate of 5.0% to advance refund $15,040,000 of outstanding Airport Revenue Bonds Series 2001 and $14,740,000 of outstanding Airport Revenue Bonds Series 2002. The net proceeds of $16,559,700 (after payment of approximately $295,300 in issuance costs) and $13,937,973 from the debt service funds of the series 2001 and 2002 were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.

This advance partial refunding of the series 2001 and 2002 bonds resulted in an accounting loss of approximately $718,000 that is being deferred and amortized over the life of the old bonds. The Department reduced its aggregate debt service payments by approximately $8.6 million over the next 3 years and incurred an economic loss (difference between the present values of the old and new debt service payments and other contributions) of approximately $1.7 million.

Series 2002

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

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

Series 2001

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

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

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

On March 15, 2006, the Department of Airports entered into an $8,000,000 line of credit agreement with a financial institution to finance costs incurred for the acquisitions, constructions, installation and equipping of certain facilities and improvements relating to the Airport System. Principal borrowed on the line of credit is due at maturity on June 30, 2011. Interest on the principal balance accrues at a rate equivalent to 77% of the one-month LIBOR rate plus 46 basis points (approximately 4.86% at September 30, 2007) and is paid quarterly. Borrowings on the line of credit are payable from and secured by a pledge of the net revenues of the airport system, subordinate to the lien and pledge of net revenues for repayment of the Airport bonds. The balance of the Note Payable is $250,000 at September 30, 2007 and 2006.

Note 6. Revenue Bonds and Loan Payable (Continued)

A summary of changes in long-term liabilities for the years ended September 30, 2007 and 2006 is as follows:

	Balance at October 1, 2006	Additions	Retirements	Reductions	Balance at September 30, 2007	Due Within One Year
Revenue bonds:						
Series 2006A	$ 69,080,000	$ -	$ -	$ -	$ 69,080,000	$ -
Series 2006B	16,855,000	-	-	-	16,855,000	-
Series 2002	45,410,000	-	-	-	45,410,000	-
Series 2001	36,040,000	-	-	6,515,000	29,525,000	6,790,000
Note payable	250,000	-	-	-	250,000	-
Compensated absences payable	1,113,593	120,526	-	104,427	1,129,692	100,354
	$ 168,748,593	$ 120,526	$ -	$ 6,619,427	162,249,692	$ 6,890,354
Less current maturities					6,890,354	
Long-term portion					155,359,338	
Add unamortized bond premium					2,240,125	
Less unamortized loss on refunding					(2,055,842)	
Total					$ 155,543,621	

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

Note 6. Revenue Bonds and Loan Payable (Continued)

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

Year Ending September 30,	Principal	Interest	Total
2008	$ 6,790,000	$ 8,253,930	$ 15,043,930
2009	7,225,000	7,922,705	15,147,705
2010	7,535,000	7,570,993	15,105,993
2011	7,975,000	7,194,312	15,169,312
2012	10,270,000	6,729,581	16,999,581
2013-2017	40,130,000	24,895,676	65,025,676
2018-2022	14,785,000	18,470,702	33,255,702
2023-2027	16,945,000	14,327,275	31,272,275
2028-2032	21,630,000	9,527,900	31,157,900
2033-2037	27,585,000	3,438,641	31,023,641
	$ 160,870,000	$ 108,331,715	$ 269,201,715

Note 7. Other Receivable

In May 2001, the County entered into termination agreements with Merrill Lynch Capital Services ("MLCS") to terminate its interest rate swap agreements. On July 3, 2002 the Department of Airports paid $2,477,800 to terminate the agreement related to the Series 2002 bonds. In conjunction with the termination of the swap agreement related to the Series 2002 bonds, MLCS agreed to pay the Department of Airports $76,488 on each October 1 and April 1 beginning October 1, 2002 and ending October 1, 2014. These future payments were discounted at 5.75% and the net amount of $1,312,000 (payments to be received totaling $1,912,200 less discount of $600,200) was recorded as a receivable and a reduction of the loss on swap termination. At September 30, 2007 and 2006 the net receivable was $920,938 (less current portion of $101,379 and net of discount of $225,783), and $1,016,730 (less current portion of $95,792 and net of discount of $282,888), respectively.

Note 8. Defined Benefit Pension Plan

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

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

Note 8. Defined Benefit Pension Plan (Continued)

Funding policy: Plan members are not required to contribute to the System. The Department of Airports is required to contribute at an actuarially determined rate, which is presently 9.85% of annual covered payroll. The contribution requirement for plan members and participating governments is established by State Statute. The Department of Airports' contributions to the System for the years ended September 30, 2007, 2006 and 2005 were approximately $781,000, $651,000 and $550,000, respectively, and were equal to the required contributions for each year.

Note 9. Related Party Transactions

The Department of Airports reimburses the General Fund of Palm Beach County for an allocated portion of certain support department costs which include such services as legal, administrative, fiscal, engineering, purchasing, personnel, internal audit and communication costs. The Department of Airports is also charged for the cost of services provided by the Motor Pool, Casualty Self-Insurance, Workers' Compensation and Data Processing Internal Service Funds of the County. The total cost for the above services was approximately $3,495,000 and $4,081,000 for the years ended September 30, 2007 and 2006, 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, 2007 and 2006 totaled approximately $264,000 and $217,000, respectively. At September 30, 2007 and 2006, there was $275,101 and $27,468 receivable from other funds and departments of Palm Beach County and $105,894 and $111,975, respectively, was payable to other 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 was approximately $6.43 million and $6.82 million for the years ended September 30, 2007 and 2006, 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 $6.078 million and $5.789 million for the years ended September 30, 2007 and 2006.

Note 10. Major Customers

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

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

Note 10. Major Customers (Continued)

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

	Percent of Activity Based Upon Enplaned Passengers Years Ended September 30, 2007	2006
Airline		
Delta Airlines, Inc.	21.62%	24.25%
Jet Blue Airways Corporation	17.20%	16.65%
US Airways, Inc.	16.30%	15.18%
Continental Airlines, Inc.	13.46%	13.43%
Southwest Airlines Company	12.07%	11.75%
AirTran Airways	5.76%	3.89%
American Airlines, Inc.	4.74%	5.77%
Others	8.85%	9.08%
	100.00%	100.00%

Note 11. Commitments and Contingencies

Litigation

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

Grants

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

Risk Management

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

The Department of Airports participates in the County-wide self-insurance programs for casualty, employee health and workers' compensation. Premiums charged to the Department of Airports are based on actuarial estimates of the amounts needed to pay prior and current year claims. Premiums paid to the County were $1,499,000 and $1,526,000 for the years ended September 30, 2007 and 2006, respectively. While each of these programs is subject to potential losses in excess of the amounts that have been accrued and funded as of September 30, 2007 and 2006, management believes it is unlikely that the amounts of such potential losses, if any, would be material.

Note 11. Commitments and Contingencies (Continued)

Contract Commitments

The Department of Airports has several uncompleted design and construction contracts for improvements to the airport system. At September 30, 2007 and 2006, the remaining commitment on these uncompleted contracts was $37,165,498 and $90,206,792, respectively, which is summarized as follows:

	Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
2007	$ 108,694,871	$ 59,994,135	$ 5,190,242	$ 37,165,498
2006	$ 144,507,653	$ 53,848,653	$ 452,208	$ 90,206,792

Note 12. Special Item-Sale of Land

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

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

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

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

Note 13. Subsequent Events

The Department participates in the County's internal investment pool. At September 30, 2007, the County's internal investment pool had approximately $67 million invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool ("Pool"). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools.

Note 13. Subsequent Events (Continued)

Pool A consisted of all money market appropriate assets, which was approximately $12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately $2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 15% of their balance or $2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

As of December 4, 2007, the County’s Internal Investment Pool fully liquidated its investments in the pool without realizing any loss in value. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

McGladrey & Pullen
Certified Public Accountants

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 assets of the Palm Beach County, Florida Department of Airports as of September 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 19, 2008.

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

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

McGladrey & Pullen, LLP

West Palm Beach, Florida
March 19, 2008

McGladrey & Pullen
Certified Public Accountants

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 the accompanying statement of net assets of the Palm Beach County, Florida Department of Airports (the "Department") as of September 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We also noted certain matters involving the Department of Airports that we reported to management of the County in a separate letter dated March 19, 2008

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

McGladrey & Pullen, LLP

West Palm Beach, Florida
March 19, 2008