

# **Lee County Port Authority**

## **Component Unit Financial Report**



**Years Ended September 30, 2012 and 2011**





# Lee County Port Authority

Lee County, Florida

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ROBERT M. BALL, A.A.E.  
EXECUTIVE DIRECTOR

March 11, 2013

BOARD OF  
PORT COMMISSIONERS

TAMMY HALL

LARRY KIKER

FRANK MANN

JOHN E. MANNING

CECIL L. PENDERGRASS

Dear Friends:

I am pleased to present the Lee County Port Authority's (Port Authority) financial results for the fiscal year ending September 30, 2012. Despite continued global, regional, and local economic challenges, our financial results were positive.

For the fiscal year, total passengers at Southwest Florida International Airport were 7,267,960, a decrease of 5.09 percent when compared to the previous year. Operating expenses before depreciation were \$61.6 million, an increase of \$800,000 when compared to last year's results. Salaries increased by 2.8% or \$560,000 mainly due to a one-time employee recognition award, while benefits decreased by 6.8% or \$812,000, primarily due to a decrease of \$477,000 in retirement contributions. The increase in operating expenses is mainly due to the cost of fuel for resale. Total revenues were \$84.2 million, a net increase of \$436,000 from last year's results, mainly due to an increase of \$915,000 in fuel sales (due to a higher average sales price and an increase in total gallons sold), and a decrease of \$421,000 in signatory airline rents (due to a lower terminal rental rate).

The result of the above factors was the signatory airlines received approximately \$838,000 refund of landing fees and terminal rents. Additionally, the carriers received their share of net revenues, which totaled \$2.5 million. The actual cost-per-enplaned passenger was calculated to be \$7.22, which was \$0.42 less than our budgeted projections.

Major ongoing projects in the past year included the continued conceptual design of the Parallel Runway, design and construction of the RSW Apron Expansion, and construction of the Aircraft Rescue & Fire Fighting Station.

The Port Authority was recognized during the year for many notable awards. The Florida Department of Transportation awarded LCPA with the 2012 Outstanding Commercial Service Airport of the Year Award for Southwest Florida International Airport. The Federal Aviation Administration presented RSW with the Airport Safety Mark of Distinction Award. LCPA was given the Outstanding Environmental Project Award for the Page Field General Aviation Terminal Complex by the Florida Planning & Zoning Association. The Florida Public Relations Association honored LCPA with an Award of Distinction at the Golden Image Awards for its Base Operations Dedication Ceremony, and finally, the American Heart Association acknowledged LCPA as a Gold Level Fit-Friendly Worksite.

March 11, 2013

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From an air service perspective, new markets and the expansion of existing markets over the past year included Hartford, Providence, Green Bay, Key West, New York/LaGuardia, New York/Kennedy, and Toronto. Turning our focus to Page Field, fiscal year 2012 marked the first full year of operation of the General Aviation Terminal Complex (Base Ops). Total gallons sold during the year were approximately 1.2 million gallons, a 10% increase over the previous year. Other ongoing projects at Page Field include the realignment of South Road and the continued design of the perimeter road.

We are extremely pleased with the results of the past fiscal year and look forward to serving our customers at Southwest Florida International Airport and Page Field during the upcoming year.

Sincerely,

LEE COUNTY PORT AUTHORITY

A handwritten signature in black ink, appearing to read "Robert M. Ball", is written over the printed name and title.

Robert M. Ball, A.A.E.  
Executive Director

## Report of Independent Auditor

To the Board of County Commissioners of  
Lee County, Florida

and

To the Board of Port Commissioners of the  
Lee County Port Authority:

We have audited the accompanying basic financial statements of the Lee County Port Authority (the "Authority"), a blended component unit of Lee County, Florida as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the year 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 11, 2013 on our consideration of the Authority's 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 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 important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The supplemental schedule, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Cherry Bekant LLP*

Tampa, Florida  
March 11, 2013

## Management's Discussion and Analysis (unaudited)

This discussion and analysis is intended to serve as an introduction to the Lee County Port Authority's (Port) financial statements for fiscal years ending September 30, 2012 and 2011. The information here should be taken in conjunction with the financial statements, footnotes and supplementary information found in this report.

### *Financial Highlights and Summary*

Table 1 reflects a summary of net assets for 2012, 2011, and 2010.

| <u>Table 1</u>                                     |                  |                  |                  |
|--|------------------|------------------|------------------|
| Summary of Net Assets                              |                  |                  |                  |
| September 30, 2012, 2011, and 2010                 |                  |                  |                  |
| (000's)  |                  |                  |                  |
|  | <u>2012</u>      | <u>2011</u>      | <u>2010</u>      |
| Current and other assets                           | \$209,456        | \$200,809        | \$196,726        |
| Capital Assets                                     | <u>662,542</u>   | <u>689,930</u>   | <u>686,046</u>   |
| Total assets                                       | <u>871,998</u>   | <u>890,739</u>   | <u>882,772</u>   |
| <br>   |                  |                  |                  |
| Current liabilities                                | 30,204           | 31,791           | 33,198           |
| Non-current liabilities                            | <u>340,887</u>   | <u>349,197</u>   | <u>356,599</u>   |
| Total liabilities                                  | <u>371,091</u>   | <u>380,988</u>   | <u>389,797</u>   |
| <br>   |                  |                  |                  |
| Net assets:  |                  |                  |                  |
| Invested in capital assets,<br>net of related debt | 353,539          | 369,207          | 355,435          |
| Restricted   | 50,865           | 44,333           | 42,008           |
| Unrestricted                                       | <u>96,503</u>    | <u>96,211</u>    | <u>95,532</u>    |
| Total net assets                                   | <u>\$500,907</u> | <u>\$509,751</u> | <u>\$492,975</u> |

### *Summary of Net Assets Analysis*

In 2012, total assets decreased \$18,741,000. This decrease was primarily due to a combination of an increase in cash and cash equivalents of \$4,143,000, an increase in cash and cash equivalents with fiscal agent of \$4,782,000, a decrease in fixed assets of \$9,915,000, an increase of \$906,000 in construction work in progress and an increase of \$18,379,000 in accumulated depreciation. In 2012, total liabilities decreased \$9,897,000. This decrease was primarily due to a combination of a decrease in accounts payable of \$1,985,000, a decrease of \$3,656,000 in refunds and rebates payable, an increase of \$3,831,000 in accrued liabilities, a decrease in bond and note payables of \$10,688,000, and an increase in other post employment benefits ("OPEB") of \$2,646,000.

In 2011, total assets increased \$7,967,000. This increase was primarily due to a combination of an increase in cash and cash equivalents of \$13,660,000, a decrease in receivables of \$815,000, a decrease in investments of \$10,183,000, an increase in fixed assets of \$12,851,000, an increase of \$6,044,000 in construction work in progress and an increase of \$15,011,000 in accumulated depreciation. In 2011, total liabilities decreased \$8,809,000. This decrease was primarily due to an increase in accounts payable of \$3,070,000, a decrease of \$3,346,000 in accrued liabilities, a decrease in bond and note payables of \$11,892,000, and an increase in other post employment benefits ("OPEB") of \$2,942,000.

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Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2012, 2011 and 2010.

Table 2  
Summary of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended September 30, 2012, 2011 and 2010  
(000's)

|  | <u>2012</u>      | <u>2011</u>      | <u>2010</u>      |
|--|------------------|------------------|------------------|
| <i>Revenues, net:</i>  |                  |                  |                  |
| User fees  | \$47,283         | \$46,837         | \$47,531         |
| Rental cars  | 16,660           | 17,051           | 16,581           |
| Parking  | 11,513           | 12,498           | 12,289           |
| Other, net   | <u>8,758</u>     | <u>7,392</u>     | <u>6,533</u>     |
| Total revenues, net  | <u>84,214</u>    | <u>83,778</u>    | <u>82,934</u>    |
| <i>Expenses:</i>   |                  |                  |                  |
| Salaries, wages and benefits   | 31,649           | 31,901           | 30,317           |
| Contractual services, materials<br>and supplies, Utilities,<br>Repairs and Maintenance | 26,568           | 25,744           | 24,650           |
| Depreciation and amortization  | 19,568           | 19,709           | 19,632           |
| Other  | <u>3,362</u>     | <u>3,217</u>     | <u>3,408</u>     |
| Total expenses   | <u>81,147</u>    | <u>80,571</u>    | <u>78,007</u>    |
| Operating income   | <u>3,067</u>     | <u>3,207</u>     | <u>4,927</u>     |
| <i>Non-operating revenues (expenses):</i>  |                  |                  |                  |
| Investment earnings  | 530              | 471              | 701              |
| Interest expense   | (17,576)         | (18,882)         | (21,162)         |
| Passenger facility charges   | 14,775           | 15,582           | 15,156           |
| Other revenues (expenses)  | <u>133</u>       | <u>263</u>       | <u>439</u>       |
| Total non-operating revenues (expenses)  | <u>(2,138)</u>   | <u>(2,566)</u>   | <u>(4,866)</u>   |
| Income (loss) before capital contributions   | 929              | 641              | 61               |
| Capital contributions  | 7,173            | 16,135           | 7,794            |
| Special item-loss on discontinued project  | <u>(16,946)</u>  | <u>0</u>         | <u>0</u>         |
| Increase (decrease) in net assets  | (8,844)          | 16,776           | 7,855            |
| Beginning net assets   | <u>509,751</u>   | <u>492,975</u>   | <u>485,120</u>   |
| Ending net assets  | <u>\$500,907</u> | <u>\$509,751</u> | <u>\$492,975</u> |

### *Summary of Revenues and Expenses Analysis*

In 2012, operating income totaled \$3,067,000, a decrease of \$140,000, which was a combination of an increase of total net revenues of \$436,000 and an increase of \$576,000 in operating expenses. The increase in total net revenues was primarily due to an increase of \$915,000 in fuel sales (due to a higher average sales price and an increase in total gallons sold), and a decrease of \$421,000 in signatory airline rents (due to a lower terminal rental rate). Operating expenses increased \$576,000 in 2012 mainly due to an increase of \$252,000 in salaries and benefits (mainly due to an increase of \$560,000 in salaries, a decrease of \$477,000 in retirement contributions) and an increase of \$887,000 in contractual services (due to an increase in cost of fuel sold for resale).

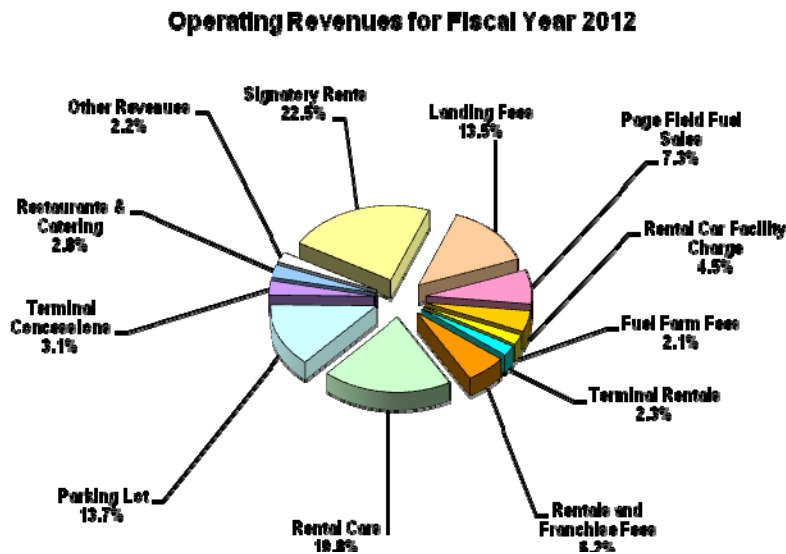
In 2011, operating income totaled \$3,207,000, a decrease of \$1,720,000, which was a combination of an increase of total net revenues of \$844,000 and an increase of \$2,564,000 in operating expenses. The increase in total net revenues was primarily due to an increase of \$1,013,000 in fuel sales (due to a higher average sales price), an increase of \$228,000 in privilege fees, a decrease of \$1,081,000 in landing fees, (due to a lower landing fee) and a decrease of \$1,037,000 in signatory airline rents (due to a lower terminal rental rate). Operating expenses increased \$2,564,000 in 2011 mainly due to an increase of \$1,584,000 in salaries and benefits (mainly due to an

Lee County Port Authority  
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increase in OPEB) and an increase of \$1,094,000 in contractual services (due to increased costs in the parking contract and an increase in cost of fuel sold for resale).

In 2012, capital contributions totaled \$7,173,000, a decrease of \$8,962,000. Major grants received this year include \$2,528,000 for the new fire station, \$1,163,000 for design and construction of the apron and \$1,754,000 for the continued conceptual design of the parallel runway. In 2011, capital contributions totaled \$16,135,000, an increase of \$8,341,000. This was due to a combination of a \$1,168,000 grant for a fire truck, a \$5,069,000 grant for the general aviation terminal, a \$1,159,000 grant for the entrance road to the general aviation terminal, and a \$500,000 ARRA solar grant.

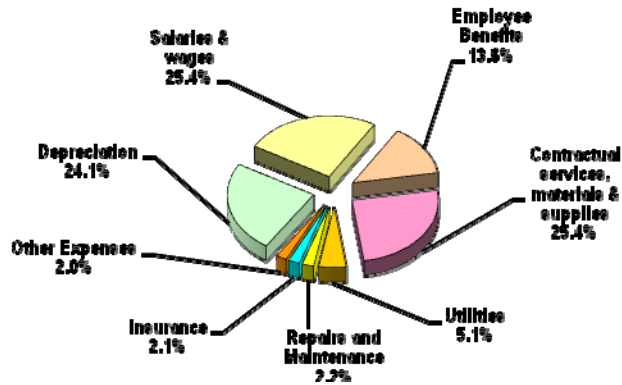
The following charts summarize the Net Revenues and Expenses for fiscal year 2012.



| Operating Revenues                  | 2012                | 2011                | 2012<br>Percent of<br>Total | Increase/<br>(Decrease)<br>from 2011 | % Increase/<br>(Decrease)<br>from 2011 |
|-------------------------------------|---------------------|---------------------|-----------------------------|--------------------------------------|--|
| Signatory Rents                     | 18,932,000          | \$17,395,000        | 22.5%                       | \$1,537,000                          | 8.8%                                   |
| Landing Fees                        | 11,406,000          | 11,349,000          | 13.5%                       | 57,000                               | 0.5%                                   |
| Page Field Fuel Sales               | 6,182,000           | 5,267,000           | 7.3%                        | 915,000                              | 17.4%                                  |
| Rental Car Facility Charge          | 3,800,000           | 3,814,000           | 4.5%                        | (14,000)                             | -0.4%                                  |
| Fuel Farm Fees                      | 1,790,000           | 2,159,000           | 2.1%                        | (369,000)                            | -17.1%                                 |
| Terminal Rentals                    | 1,918,000           | 1,716,000           | 2.3%                        | 202,000                              | 11.8%                                  |
| Rentals & Franchise Fees            | 5,200,000           | 5,379,000           | 6.2%                        | (179,000)                            | -3.3%                                  |
| Rental Cars                         | 16,660,000          | 17,051,000          | 19.8%                       | (391,000)                            | -2.3%                                  |
| Parking Lot                         | 11,513,000          | 12,498,000          | 13.7%                       | (984,000)                            | -7.9%                                  |
| Terminal Concessions                | 2,616,000           | 2,743,000           | 3.1%                        | (127,000)                            | -4.6%                                  |
| Restaurants & Catering              | 2,345,000           | 2,437,000           | 2.8%                        | (92,000)                             | -3.8%                                  |
| Other Revenues                      | 1,852,000           | 1,970,000           | 2.2%                        | (119,000)                            | -6.0%                                  |
| <b>Total Net Operating Revenues</b> | <b>\$84,214,000</b> | <b>\$83,778,000</b> | <b>100.0%</b>               | <b>\$436,000</b>                     | <b>.52%</b>                            |

Lee County Port Authority  
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**Operating Expenses for Fiscal Year 2012**



| <u>Operating Expenses</u>                  | <u>2012</u>         | <u>2011</u>         | <u>2012</u><br><u>Percent of</u><br><u>Total</u> | <u>Increase/</u><br><u>(Decrease)</u><br><u>from 2011</u> | <u>% Increase/</u><br><u>(Decrease)</u><br><u>from 2011</u> |
|--|---------------------|---------------------|--|---|---|
| Salaries & wages                           | \$20,589,000        | \$20,029,000        | 25.4%  | \$560,000   | 2.8%  |
| Employee benefits                          | 11,060,000          | 11,872,000          | 13.6%  | (812,000)   | -6.8%   |
| Contractual services, materials & supplies | 20,634,000          | 19,747,000          | 25.4%  | 887,000   | 4.5%  |
| Utilities                                  | 4,145,000           | 4,278,000           | 5.1%   | (133,000)   | -3.1%   |
| Repairs and maintenance                    | 1,789,000           | 1,719,000           | 2.2%   | 70,000  | 4.1%  |
| Insurance                                  | 1,732,000           | 1,725,000           | 2.1%   | 7,000   | 0.4%  |
| Other expenses                             | 1,630,000           | 1,492,000           | 2.0%   | 138,000   | 9.2%  |
| Depreciation                               | 19,568,000          | 19,709,000          | 24.1%  | (141,000)   | -0.7%   |
| <b>Total Operating Expenses</b>            | <b>\$81,147,000</b> | <b>\$80,571,000</b> | <b>100%</b>                                      | <b>\$576,000</b>  | <b>0.7%</b>   |

### *Passenger Facility Charges*

In November 1992, the Port received approval from the Federal Aviation Administration (“FAA”) to impose a Passenger Facility Charge (PFC) of \$3.00 per eligible enplaned passenger. In 1998, the Port issued PFC Revenue Bonds for \$52,225,000 to fund eligible capital improvements and land acquisition. In November 2003, the Port was granted authority to raise the PFC level from \$3.00 to \$4.50. In September 2010, the FAA approved a PFC Application for \$51,877,000. Projects in the application were all for the Southwest Florida International Airport and include design and construction of a new Fire and Rescue Station, various fire rescue equipment, design and construction of taxiways and apron, design and permitting of the parallel runway, passenger terminal improvements, enhancements to the mitigation park and master planning and noise studies. In September 2012, an amendment to the September 2010 Application was approved and increased that application by \$4,612,000. As a result, the total collection authority is \$ 301,067,000 with an estimated expiration date of October 1, 2018.

### *Capital Assets*

Capital assets, net of \$19,565,000 of depreciation, decreased by \$27,388,000 in 2012. Major capital spending in 2012 included \$4,821,000 for construction of a new aircraft rescue and fire station, \$1,197,000 for design and construction of the apron and \$796,000 for the continued conceptual design of the parallel runway.

Capital assets, net of \$19,706,000 of depreciation, increased by \$3,884,000 in 2011. Major capital spending in 2011 included \$7,019,000 for construction of a new aircraft rescue and fire station, \$11,117,000 for construction of a general aviation terminal and \$983,000 for development of Skyplex.

Lee County Port Authority  
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Table 3 reflects a summary of capital assets for 2012, 2011, and 2010.

Table 3  
Capital Assets  
September 30, 2012, 2011 and 2010  
(000's)

|   | <u>2012</u>      | <u>2011</u>      | <u>2010</u>      |
|---|------------------|------------------|------------------|
| Land  | \$132,776        | \$142,800        | \$142,800        |
| Easements & Right of Ways                         | 45               | 47               | 45               |
| Construction in progress                          | 29,985           | 29,078           | 23,034           |
| Buildings   | 336,717          | 337,222          | 328,769          |
| Improvements                                      | 18,999           | 19,087           | 17,948           |
| Equipment   | 48,740           | 48,950           | 47,683           |
| Software  | 2,999            | 2,999            | 2,999            |
| Artwork   | 715              | 713              | 50               |
| Infrastructure                                    | <u>290,676</u>   | <u>289,764</u>   | <u>288,437</u>   |
| Subtotal  | 861,652          | 870,660          | 851,765          |
| Less accumulated depreciation<br>and amortization | <u>(199,110)</u> | <u>(180,730)</u> | <u>(165,719)</u> |
| Total   | <u>\$662,542</u> | <u>\$689,930</u> | <u>\$686,046</u> |

Additional information regarding the Port's capital assets is found in note V to the financial statements.

### *Debt Administration*

As of September 30, 2012, the Port had \$340,417,000 in outstanding debt, a decrease of \$11,075,000. In October 2010, the Airport issued the Series 2010 Passenger Facility Charge Revenue Refunding Note, which refunded the Series 1998 Passenger Facility Charge Bonds. In August 2011, the Airport issued the Series 2011A Airport Revenue Refunding Bonds, which refunded the remaining portion of the Series 2000A Airport Revenue Bonds.

Table 4  
Outstanding Debt  
September 30, 2012, 2011 and 2010  
(000's)

|  | <u>2012</u>      | <u>2011</u>      | <u>2010</u>      |
|--|------------------|------------------|------------------|
| Series 1998 Passenger Facility Charge Bonds  | \$ -             | \$ -             | \$21,335         |
| Series 2000A Airport Revenue Bonds           | -                | -                | 172,575          |
| Series 2002 Airport Revenue Refunding Bonds  | -                | -                | 6,580            |
| Series 2005 Airport Revenue Refunding Bonds  | 37,585           | 37,625           | 37,665           |
| Series 2010A Airport Revenue Refunding Bonds | 111,730          | 119,350          | 119,350          |
| Series 2011A Airport Revenue Refunding Bonds | 174,450          | 174,450          | n/a              |
| 2004 Line of Credit Note                     | 3,812            | 4,167            | 4,507            |
| Series 2010 Passenger Facility Charge Loan   | <u>12,840</u>    | <u>15,900</u>    | <u>n/a</u>       |
| Total  | <u>\$340,417</u> | <u>\$351,492</u> | <u>\$362,012</u> |

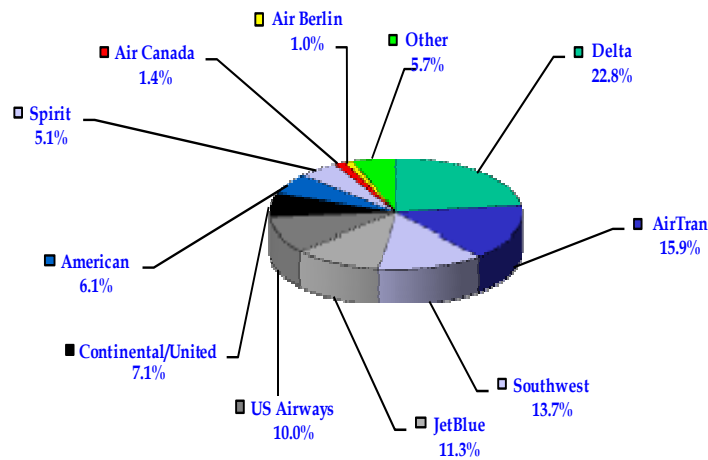
See additional information on the Port's debt in note VI to the financial statements.

## Airport Activities

The total passenger count for fiscal year 2012 was 7,277,000, an decrease of 5.09 percent over prior year. Below is a summary of new and increased airline service to Southwest Florida International Airport over the past year.

- American Airlines increased service to Chicago from 3 to 4 weekly (Feb 2012)
- Southwest added daily nonstop service to Hartford and Providence (Feb 2012)
- Vision Airlines started weekly service to Springfield, IL and Rockford, IL (Mar 2012)
- WestJet increased summer service to Toronto over the summer, from 3 to 4 weekly (May 2012)
- JetBlue started daily nonstop service to Lagueardia (June 2012)
- Silver Airways started daily nonstop service to Key West (July 2012)

The following chart exhibits the Total Passenger Market Share for the Top Ten Airlines operating at Southwest Florida International Airport during Fiscal Year 2012.



| <u>Airline</u>     | <u>FY 2012<br/>Market Share</u> | <u>FY 2011<br/>Market Share</u> | <u>%<br/>Change</u> |
|--------------------|---------------------------------|---------------------------------|---------------------|
| Delta              | 22.8%                           | 21.0%                           | 8.6%                |
| AirTran            | 15.9%                           | 17.4%                           | -8.6%               |
| Southwest          | 13.7%                           | 12.2%                           | 12.3%               |
| JetBlue            | 11.3%                           | 11.6%                           | -2.6%               |
| US Airways         | 10.0%                           | 9.2%                            | 8.7%                |
| Continental/United | 7.1%                            | 7.6%                            | -6.6%               |
| American           | 6.1%                            | 5.2%                            | 17.3%               |
| Spirit             | 5.1%                            | 5.8%                            | -12.1%              |
| Air Canada         | 1.4%                            | 1.1%                            | 27.3%               |
| Air Berlin         | 1.0%                            | 1.1%                            | -9.1%               |

## Airline Rates and Charges

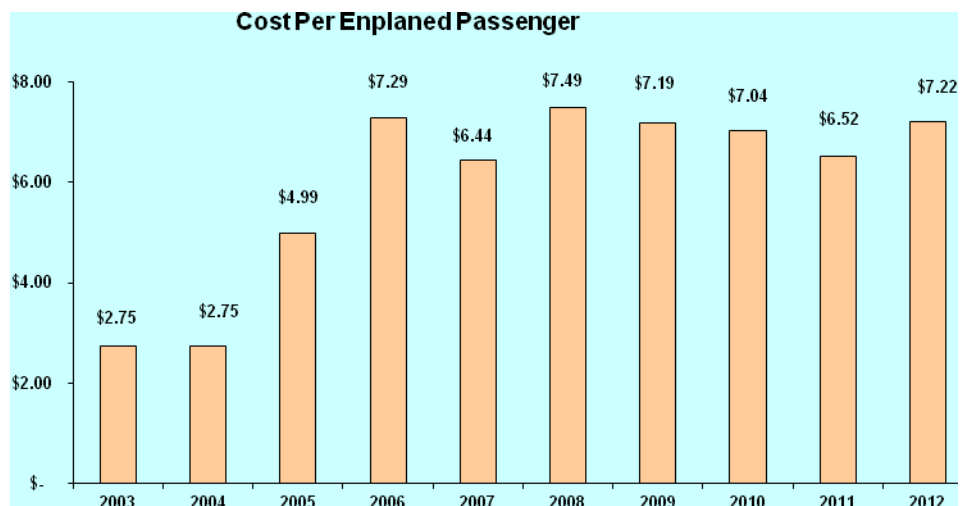
The Port Authority negotiated a new airline use agreement (Airline Airport Lease & Use Agreement) with the Participating Airlines (now referred as Signatory Airlines) with the key terms of the agreement approved by the Board in May 2008. The new Agreement commenced on October 1, 2008 with a five-year term, expiring on September 30, 2013.

The new agreement, commonly referred to as a hybrid compensatory agreement, has a revenue sharing component. In any year in which there are net remaining revenues generated at the Airport, and all requirements of the Bond Resolution have been satisfied, the net remaining revenues shall be divided between the Authority (60%) and the Signatory Airlines (40%). The agreement provides for better flexibility as there is no Majority in Interest approval required for capital projects.

Terminal premises are leased on an exclusive use, preferential use and joint use basis. The Authority will lease certain Terminal premises on a common use basis, as may be necessary. It is the intent of the Authority to manage its Terminal facilities in an efficient manner, while also respecting the schedules of its airline parties. Ticket counters, offices, operations areas, and baggage make-up facilities will be leased on an exclusive use basis. Gates/holdrooms and aircraft parking positions will be leased on a preferential use basis. Baggage claim will be leased on a joint use basis, with costs allocated to the Signatory Airlines based on twenty percent (20%) allocated to all Signatory Airlines equally, and eighty percent (80%) allocated to all Signatory Airlines based on the ratio of each Signatory Airline's enplaned passengers annually at the Airport.

Landing Fees are calculated using a "residual" Airfield Cost Center approach and will be based upon the total landed weight for all airline groups (Signatory, non-Signatory, Cargo, Charter, and International). Terminal Rents are calculated using a commercial compensatory method (i.e., rentable square foot divisor). Charges for the leasing of all Terminal space will be assessed on a square-footage basis. In fiscal year 2012, the Signatory Airlines paid the Port Authority \$24,470,000. This amount is net of refunds of \$838,000 and revenue sharing of \$2,546,000.

It is typical for the airline industry to measure its costs by its cost per enplaned passenger. Airports use this as a management tool to assess how well they are doing compared to the industry and how effective they are in managing the airport. The following chart shows the cost per enplanement at Southwest Florida International Airport over the past 10 fiscal years. Please note, the increase in 2006 was due to the first full year of operations in the new terminal.



*Financial Contact*

The Lee County Port Authority's financial statements and this analysis are designed to give a general overview to all interested parties. If you should have any questions regarding this report or require additional information, please contact the Lee County Port Authority Finance Department, 11000 Terminal Access Road, Suite 8671, Fort Myers, Florida, 33913.

# Financial Statements





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Lee County Port Authority  
Lee County, Florida  
STATEMENTS OF NET ASSETS  
As of September 30, 2012 and 2011  
(amounts expressed in thousands)

|  | 2012       | 2011       |
|--|------------|------------|
| <b>ASSETS</b>                                      |            |            |
| Current assets:                                    |            |            |
| Cash and equity in pooled cash and investments     | \$ 97,064  | \$ 100,649 |
| Investments  | 10,401     | 10,475     |
| Restricted assets                                  | 16,321     | 11,538     |
| Receivables (net):                                 |            |            |
| Accounts   | 4,754      | 3,768      |
| Accrued interest                                   | 2          | -          |
| Grants   | 2,970      | 2,704      |
| Inventories  | 173        | 153        |
| Other  | 1,021      | 924        |
| Total current assets                               | 132,706    | 130,211    |
| Noncurrent assets:                                 |            |            |
| Restricted assets                                  | 73,144     | 66,716     |
| Capital assets (net)                               | 662,542    | 689,930    |
| Intangible assets                                  | 10         | 13         |
| Unamortized bond costs                             | 3,596      | 3,869      |
| Total noncurrent assets                            | 739,292    | 760,528    |
| Total assets                                       | 871,998    | 890,739    |
| <b>LIABILITIES</b>                                 |            |            |
| Current liabilities:                               |            |            |
| Contracts and accounts payable                     | 6,783      | 8,768      |
| Accrued liabilities                                | 758        | 1,475      |
| Refunds and rebates                                | 3,384      | 7,041      |
| Due to Board of County Commissioners               | 46         | 235        |
| Due to other governments                           | 375        | 468        |
| Customer deposits                                  | 1,052      | 470        |
| Deferred revenues                                  | 446        | 847        |
| Compensated absences                               | 1,038      | 981        |
| Notes payable                                      | 375        | 355        |
| Current liabilities payable from restricted assets |            |            |
| Accrued liabilities                                | 8,426      | 3,878      |
| Revenue bonds payable                              | 7,521      | 7,273      |
| Total current liabilities                          | 30,204     | 31,791     |
| Noncurrent liabilities:                            |            |            |
| Compensated absences                               | 457        | 431        |
| Notes payable                                      | 16,277     | 19,712     |
| Revenue bonds payable                              | 309,831    | 317,352    |
| Due to Board of County Commissioners               | 115        | 141        |
| Accrued liabilities                                | 14,207     | 11,561     |
| Total noncurrent liabilities                       | 340,887    | 349,197    |
| Total liabilities                                  | 371,091    | 380,988    |
| <b>NET ASSETS</b>                                  |            |            |
| Invested in capital assets, net of related debt    | 353,539    | 369,207    |
| Restricted for:                                    |            |            |
| Capital Projects                                   | 42,470     | 36,010     |
| Debt service                                       | 7,895      | 7,823      |
| Renewal and Replacement                            | 500        | 500        |
| Unrestricted                                       | 96,503     | 96,211     |
| Total Net Assets                                   | \$ 500,907 | \$ 509,751 |

The notes to the financial statements are an integral part of this statement.

Lee County Port Authority

Lee County, Florida

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2012 and 2011

(amounts expressed in thousands)

|  | 2012              | 2011              |
|--|-------------------|-------------------|
| <b>OPERATING REVENUES</b>                            |                   |                   |
| User fees  | \$ 47,283         | \$ 46,837         |
| Rentals  | 5,200             | 5,379             |
| Concessions  | 5,956             | 6,205             |
| Parking Revenues                                     | 11,513            | 12,498            |
| Rental Car Revenues                                  | 16,660            | 17,051            |
| Miscellaneous  | 148               | 169               |
| Total operating revenues                             | <u>86,760</u>     | <u>88,139</u>     |
| Less: Rebates  | <u>(2,546)</u>    | <u>(4,361)</u>    |
| Net operating revenues                               | <u>84,214</u>     | <u>83,778</u>     |
| <b>OPERATING EXPENSES</b>                            |                   |                   |
| Salaries and wages                                   | 20,589            | 20,029            |
| Employee benefits                                    | 11,060            | 11,872            |
| Contractual services, materials and supplies         | 20,634            | 19,747            |
| Utilities  | 4,145             | 4,278             |
| Repairs and maintenance                              | 1,789             | 1,719             |
| Insurance  | 1,732             | 1,725             |
| Other  | 1,630             | 1,492             |
| Depreciation and amortization                        | 19,568            | 19,709            |
| Total operating expenses                             | <u>81,147</u>     | <u>80,571</u>     |
| Operating income                                     | <u>3,067</u>      | <u>3,207</u>      |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>            |                   |                   |
| Investment earnings                                  | 530               | 471               |
| Interest expense                                     | (17,576)          | (18,882)          |
| Grants   | 409               | 408               |
| Loss on disposal of capital assets                   | (278)             | (183)             |
| Passenger facility charges                           | 14,775            | 15,582            |
| Other revenues                                       | 3                 | 39                |
| Other expenses                                       | (1)               | (1)               |
| Total non-operating revenues (expenses)              | <u>(2,138)</u>    | <u>(2,566)</u>    |
| Income before capital contributions and special item | 929               | 641               |
| Capital contributions                                | 7,173             | 16,135            |
| Special item: loss on discontinued project           | (16,946)          | -                 |
| Change in net assets                                 | <u>(8,844)</u>    | <u>16,776</u>     |
| Total net assets- beginning                          | 509,751           | 492,975           |
| Total net assets - ending                            | <u>\$ 500,907</u> | <u>\$ 509,751</u> |

The notes to the financial statements are an integral part of this statement.

Lee County Port Authority  
Lee County, Florida  
STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2012 and 2011  
(amounts expressed in thousands)

|   | 2012       | 2011       |
|---|------------|------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |            |            |
| Receipts from customers   | \$ 79,206  | \$ 84,921  |
| Cash received from customer deposits                            | 623        | 147        |
| Cash returned from customer deposits                            | (42)       | (260)      |
| Other cash receipts   | 3          | 39         |
| Payments to suppliers   | (31,323)   | (23,226)   |
| Payments to employees   | (29,595)   | (31,725)   |
| Net cash provided by operating activities                       | 18,872     | 29,896     |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |            |            |
| Operating grants received                                       | 456        | 349        |
| Net cash provided by noncapital financing activities            | 456        | 349        |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |            |            |
| Proceeds from capital debt                                      | -          | 670        |
| Capital contributions   | 6,860      | 14,854     |
| Proceeds from passenger facilities charges                      | 14,710     | 15,512     |
| Additions to capital assets                                     | (10,220)   | (23,422)   |
| Principal paid on bonds, loans, and leases                      | (11,102)   | (12,496)   |
| Interest paid on bonds, loans, and leases                       | (12,671)   | (22,484)   |
| Transfer to refunding escrow agent                              | -          | (11)       |
| Proceeds from sale of capital assets                            | 86         | 189        |
| Net cash used in capital and related financing activities       | (12,337)   | (27,188)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |            |            |
| Proceeds from sale and maturities of investments                | 36,276     | 78,157     |
| Purchase of investments   | (34,922)   | (68,063)   |
| Interest on investments   | 582        | 509        |
| Net cash provided by investing activities                       | 1,936      | 10,603     |
| Net increase in cash and cash equivalents                       | 8,927      | 13,660     |
| Cash and equivalents at beginning of year                       | 150,515    | 136,855    |
| Cash and equivalents at end of year                             | \$ 159,442 | \$ 150,515 |
| Classified as:  |            |            |
| Current assets  |            |            |
| Cash and equity in pooled cash and investments                  | \$ 97,064  | \$ 100,649 |
| Restricted assets   | 16,321     | 11,538     |
| Non-current assets  |            |            |
| Restricted assets   | 46,057     | 38,328     |
| Totals  | \$ 159,442 | \$ 150,515 |

Lee County Port Authority  
Lee County, Florida  
STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2012 and 2011  
(amounts expressed in thousands)

|  | 2012      | 2011      |
|--|-----------|-----------|
| Reconciliation of operating income to net cash provided  |           |           |
| by operating activities:   |           |           |
| Operating income   | \$ 3,067  | \$ 3,207  |
| Adjustments to reconcile operating income to net cash provided   |           |           |
| by operating activities:   |           |           |
| Depreciation and amortization  | 19,568    | 19,709    |
| Other revenues   | 3         | 39        |
| (Increase) decrease in accounts receivable   | (952)     | 885       |
| Decrease in due from other governments   | (2)       | 2         |
| (Increase) decrease in inventories   | (20)      | (29)      |
| Decrease in other assets   | (96)      | 6         |
| Increase (decrease) in contracts and accounts payable  | (952)     | 2,635     |
| Increase in accrued liabilities  | 1,929     | 2,999     |
| Increase in refunds and rebates  | (3,656)   | 54        |
| Increase in due to Board of County Commissioners   | (189)     | 165       |
| Increase in due to other governments   | (92)      | 110       |
| Decrease in customer deposits  | 581       | (113)     |
| Increase (decrease) in deferred revenues   | (400)     | 204       |
| Increase in compensated absences   | 83        | 23        |
| Total adjustments  | 15,805    | 26,689    |
| Net cash provided by operating activities  | \$ 18,872 | \$ 29,896 |
| <br>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES  |           |           |
| Contributions of property, plant, and equipment  | \$ 17     | \$ -      |
| Donations of property, plant, and equipment  | (16,950)  |           |
| Increase in fair value of investments  | 67        | 66        |
| Airport Revenue Refunding, Series 2011A issuance cost paid from bond proceeds                            |           | 1,887     |
| Airport Revenue Refunding, Series 2011A bond proceeds deposited directly into an irrevocable trust       |           | 177,782   |
| Passenger Facility Charge Revenue & Refunding loan proceeds deposited directly into an irrevocable trust |           | 18,848    |

The notes to the financial statements are an integral part of this statement.

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2012 and 2011

NOTE I. SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

*Reporting Entity*

Lee County ("the County") is a political subdivision of the State of Florida. It is governed by an elected Board of County Commissioners ("the Board"), which is governed by state statutes and regulations. The Lee County Port Authority is a blended component unit of the County and is reported as an enterprise fund in the countywide primary government financial statements. In 1987, the Board authorized the creation of the Lee County Port Authority ("the Port Authority") transferring the management and administration of the County's Department of Airports (including Page Field General Aviation Airport and the Southwest Florida International Airport, "the SWFIA") to the Port Authority. Although the Board retained ownership of the Port Authority's assets and liabilities, all of the assets and liabilities used in the operations of the Port Authority are reflected in these financial statements since the Port Authority has the rights and responsibilities of ownership. The Port Authority was established under authority of Sections 125.01 and 332.08, *Florida Statutes*, Lee County Resolution Number 87-8-9, and subsequently, Lee County Ordinance Number 90-02, subsequently amended and restated as Lee County Ordinance Number 01-14.

The Board of Port Commissioners was established as the governing body for the Port Authority and consists of the members of the Board of County Commissioners. Also created was an Airports Special Management Committee, a citizen's advisory board, whose members were appointed by the Port Commissioners for the administration and management of the Lee County Airports ("Airports").

*Fund Accounting*

The Port Authority uses an enterprise fund to report its activities.

Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

As an enterprise fund, the Port Authority records both operating and non-operating revenues and expenses. Operating revenues are those that are obtained from the operations of the enterprise fund that include user fees, rental fees, and concessions. Non-operating revenues are not related to the operations of the enterprise fund and include interest earnings, grants, and passenger facility charges. Operating expenses represent the cost of operations, which includes depreciation. Non-operating expenses are not related to operations such as interest expense.

*Measurement Focus*

The Port Authority is accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the Statements of Net Assets, and the reported fund net assets (total reported assets less total reported liabilities) provides an indication of the economic net worth of the Port Authority. The Statements of Revenues, Expenses, and Changes in Net Assets reports increases (revenues) and decreases (expenses) in total economic net worth.

*Basis of Accounting*

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2012 and 2011

The Port Authority is accounted for by using the accrual basis of accounting. Under this method, revenues are recognized when they are earned; expenses are recognized when they are incurred.

### *Assets, Liabilities, and Net Assets*

#### *Cash and Equity in Pooled Cash and Investments*

The Port Authority considers cash and equity in pooled cash and investments to be cash on hand, demand deposits, highly liquid investments, including those held as restricted assets, with original maturities of three months or less when purchased, and those included in the internal investment pool.

For accounting and investment purposes, the County maintains a cash and investment pool that the Port Authority participates in and is available for use by all funds except those whose cash and investments must be segregated due to legal or other restrictions. Investments within this pool are treated as a demand deposit account. Interest earned on investments in the pool is allocated to the various funds based upon each fund's equity balance in the pool during the allocation period.

For purposes of the Statements of Cash Flows, the Port Authority considers cash and equity in pooled cash and investments (restricted and unrestricted), and restricted cash and cash equivalents with fiscal agent to be cash and cash equivalents.

#### *Investments*

The Port Authority reports all investments at fair value, with the exception of debt investments held in an internal investment pool with a maturity within ninety days of purchase, repurchase agreements, and Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration ("SBA")). All fair valuations are based on quoted market prices. The investment pool and repurchase agreements are stated at amortized cost, which approximates fair value. The fair value

of the position in the Local Government Surplus Funds Investment Pool Trust Fund, an external 2a7-like investment pool, is the same as the value of the pool shares. The Port also participates in Fund B Surplus Funds Trust Fund, a fluctuating net asset value ("NAV") external investment pool ("Fund B").

When both restricted and unrestricted resources are available, restricted resources will be used first for incurred expenses, and then unrestricted as needed.

#### *Accounts Receivable*

The accounts receivable of the Port Authority are recorded net of an allowance for doubtful accounts.

#### *Inventory*

Inventory, consisting of items for resale, is stated at cost that approximates fair market value. The "first - in, first - out" method of accounting is used to determine cost.

#### *Capital Assets*

Capital assets include property, buildings, furniture, equipment, vehicles, software, and infrastructure assets. Infrastructure assets are defined as public domain capital assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, runways, and similar assets that are immovable and of value only to the government unit. The threshold for capitalizing capital assets is \$1,000. The threshold for capitalizing software and infrastructure is \$100,000. Capital assets are recorded at cost, or estimated historical cost. Contributed assets are recorded at estimated fair market value at the time received. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2012 and 2011

The ranges of the useful lives are as follows:

| <u>Assets</u>                     | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings                         | 30-50        |
| Improvements other than buildings | 6-50         |
| Machinery & equipment             | 3-35         |
| Computer equipment                | 3-10         |
| Furniture                         | 4-20         |
| Vehicles & rolling stock          | 3-10         |
| Software                          | 3-5          |
| Infrastructure                    | 20-50        |

*Intangible Assets*

On December 21, 1995, the Port Authority purchased the assets of Fort Myers Jet Center, Inc. for \$1.6 million and has classified as goodwill the excess of cost over the fair market value of assets acquired. The Port Authority is amortizing the goodwill over twenty years.

*Unamortized Premiums, Bond Discounts, and Issuance Costs*

Premiums, bond discounts, and issuance costs related to long-term debt are amortized over the life of the debt principally by the effective-interest method. Revenue bonds payable are shown net of unamortized premiums and discounts.

*Unamortized Bond Gains or Losses*

Gains or losses from debt refundings are reported in the accompanying financial statements as a deduction to bonds payable and are charged to operations using the effective-interest method by amortizing the gain or loss over the shorter of the life of the old bond or the life of the new bond.

*Deferred Revenues*

Deferred revenues represent revenues collected in advance of services performed and will be recognized when the services are rendered.

*Compensated Absences*

The Port Authority provides employees a bank of time for paid absences on an annual basis. The bank of time is referred to as Paid Time Off ("PTO"). Under this policy, employees receive a bank of PTO based on years of continuous service with the Port Authority. All unused time is bought back annually by the Port Authority.

The Port Authority also maintains a separate vacation policy for 33 members of the Southwest Florida Professional Fire Fighters, Local Chapter 1826, IAFF, Inc. Under this policy, the employees are able to accumulate earned but unused vacation and sick pay benefits, which will be paid to employees upon separation from service if certain criteria are met.

Benefits under both policies, plus their related tax and retirement costs, are classified as compensated absences and are accrued when incurred. This is pursuant to GASB Statement Number 16, *Accounting for Compensated Absences*.

*Net Assets*

Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted. Restriction of net assets indicates amounts that are limited for a specific purpose. Restricted for debt service is used to segregate resources accumulated for current or future debt service payments.

*User Fees*

User fees are generated from airlines' signatory and non-signatory leases with the Port Authority and include landing fees and rents. Also in this category are gross fuel sales from Page Field.

*Rentals and Franchise Fees*

Revenues from this category include rental car revenues paid to the Airport, gross parking lot revenues, and terminal concession payments to the Airport.

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2012 and 2011

*Capital Contributions*

Capital contributions consist mainly of grants from Federal and State agencies. They are recognized as earned as related project costs are incurred.

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

*Use of Estimates*

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent

NOTE II. RECEIVABLES

At September 30, 2012 and 2011, accounts receivable consisted of the following (dollars in thousands):

|      |              | <u>Gross<br/>Accounts<br/>Receivable</u> | <u>Allowance<br/>for Doubtful<br/>Accounts</u> | <u>Net<br/>Accounts<br/>Receivable</u> |
|------|--------------|--|--|--|
| 2012 | Unrestricted | \$5,004                                  | (\$250)  | \$4,754                                |
|      | Restricted   | <u>2,157</u>                             |  | <u>2,157</u>                           |
|      | Total        | <u>\$7,161</u>                           | <u>(\$250)</u>                                 | <u>\$6,911</u>                         |
| 2011 | Unrestricted | \$4,018                                  | (\$250)  | \$3,768                                |
|      | Restricted   | <u>2,126</u>                             |  | <u>2,126</u>                           |
|      | Total        | <u>\$6,144</u>                           | <u>(\$250)</u>                                 | <u>\$5,894</u>                         |

NOTE III. RESTRICTED ASSETS

At September 30, 2012 and 2011, restricted assets consisted of the following (dollars in thousands):

|  | <u>2012</u>      | <u>2011</u>     |
|--|------------------|-----------------|
| Cash and equity in pooled cash and investments | \$46,057         | \$38,328        |
| Cash and cash equivalents with fiscal agent    | 16,321           | 11,538          |
| Investments                                    | 24,928           | 26,211          |
| Receivables (net):                             |                  |                 |
| Accounts                                       | 2,157            | 2,126           |
| Accrued interest                               | <u>2</u>         | <u>51</u>       |
| Total  | <u>\$ 89,465</u> | <u>\$78,254</u> |

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2012 and 2011

NOTE IV. CASH, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS

As of September 30, 2012 and 2011, the Port Authority had the following deposits, investments, and maturities (amounts in thousands):

| <u>Investment</u>                      | <u>Maturities</u> | <u>2012</u><br><u>Fair Value</u> | <u>Call Date</u> | <u>Call Frequency</u> | <u>Rating</u> |
|--|-------------------|----------------------------------|------------------|-----------------------|---------------|
| Cash on hand                           | N/A               | \$ 104                           |                  |                       | N/A           |
| Cash with fiscal agent                 | N/A               | 16,321                           |                  |                       | N/A           |
| Demand deposits                        | N/A               | 41,417                           |                  |                       | N/A           |
| SBA-Local Government Surplus Funds     |                   |                                  |                  |                       |               |
| Trust Fund Investment Pool-            |                   |                                  |                  |                       |               |
| Florida PRIME                          | 39 days           | 101,625                          |                  |                       | AAAm          |
| Fund B Surplus Funds Trust Fund        | 4.08 years        | 380                              |                  |                       | Unrated       |
| Federal Home Loan Mortgage Corporation |                   |                                  |                  |                       |               |
|  | 03/28/13          | 24,849                           |                  |                       | AA+           |
| Federal National Mortgage Association  | 09/23/13          | 10,075                           |                  |                       | AA+           |
| Total                                  |                   | <u>\$194,771</u>                 |                  |                       |               |

| <u>Investment</u>                                    | <u>Maturities</u> | <u>2011</u><br><u>Fair Value</u> | <u>Call Date</u> | <u>Call Frequency</u> | <u>Rating</u> |
|--|-------------------|----------------------------------|------------------|-----------------------|---------------|
| Cash on hand   | N/A               | \$ 37                            |                  |                       | N/A           |
| Cash with fiscal agent                               | N/A               | 11,538                           |                  |                       | N/A           |
| Demand deposits                                      | N/A               | 36,188                           |                  |                       | N/A           |
| SBA-Local Government Surplus Funds                   |                   |                                  |                  |                       |               |
| Trust Fund Investment Pool-                          |                   |                                  |                  |                       |               |
| Florida PRIME  | 38 days           | 102,860                          |                  |                       | AAAm          |
| Fund B Surplus Funds Trust Fund                      | 4.82 years        | 368                              |                  |                       | Unrated       |
| Federal Home Loan Mortgage Corporation Discount Note |                   |                                  |                  |                       |               |
|  | 03/06/2012        | 9,999                            | N/A              | N/A                   | N/A           |
| Federal Home Loan Bank                               | 02/22/2012        | 26,211                           | N/A              | N/A                   | AA+           |
| Total  |                   | <u>\$187,201</u>                 |                  |                       |               |

Fund B contains the securities that have problems with payment defaults, paid slower than expected or have significant credit risk. Interest income is not paid and distributed to Fund B participants; however, periodic liquidity has been made available. Fund B is accounted for as a fluctuating NAV pool; the fair value factor as of September 30, 2012 was .94896811.

*Credit Risk*

The Port Authority adheres to the Board's Investment Policy ("the Policy"), which limits credit risk by restricting authorized investments to the following: Direct obligations of, or obligations

the principal and interest of which are unconditionally guaranteed by the United States Government; United States Government sponsored Corporation/ Instrumentalities; United States Government Agencies; The Florida Local Government Surplus Funds Trust Fund; interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida; securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided their portfolio is limited to United States Government obligations and

Lee County Port Authority  
Lee County, Florida  
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to repurchase agreements fully collateralized by such United States Government obligations; repurchase agreements with any primary brokers/dealers collateralized by direct obligations of United States, or United States government sponsored corporation/ instrumentalities or United States government agencies; bonds, notes or obligations of any state of the United States, any municipality, political subdivision, agency or authority of Florida that is exempt from federal income taxation and that is rated by any nationally recognized rating agency for municipal bonds in any of the two highest classifications; SEC registered, no-load money market mutual funds whose portfolios consist of tax-exempt securities and repurchase agreements, whose shares of the mutual fund must be rated in the highest category by a nationally recognized rating service; Florida Local Government Investment Trust ("FLGIT"); and SEC registered money market mutual funds with average portfolio maturities under 120 days, whose portfolios consist of United States Government securities and repurchase agreements secured by such securities.

The Policy requires that collateral for overnight and term repurchase agreements must maintain a minimum price of 101 percent on United States Treasuries and 102 percent on Agencies and Instrumentalities not to exceed five (5) years, and must be "marked to market" on a weekly basis. The Policy also requires that the obligations of any state or municipality be rated by at least one of the nationally recognized rating agencies in any one of the two (2) highest classifications, and that investments in money market mutual funds must be rated in the highest category by a nationally recognized rating service. All credit ratings indicated in the previous table are Standard & Poor's (S&P) ratings.

*Custodial Credit Risk*

The Policy requires that bank deposits be secured as provided by Chapter 280, *Florida Statutes*, and that the banks must be fully insured by the Federal Deposit Insurance Corporation ("FDIC") or the Federal Savings and Loan Insurance Corporation ("FSLIC") and approved by the State Treasurer as a public depository. At September 30, 2012, all of the Port Authority's bank deposits were in qualified public depositories.

*Interest Rate Risk*

The Policy requires an average minimum dollar amount equivalent to eight weeks of expenditures shall be held in a liquid investment, and securities will not be directly invested in or accepted as collateral that have a maturity date greater than five (5) years from the settlement date.

*Concentration of Credit Risk*

The Policy establishes limitations on portfolio composition for the County in whole in order to control concentration of credit risk. The Policy allows 100 percent of the portfolio to be invested in United States Treasuries/Agencies, 40 percent to be invested in Local Government Surplus Funds, 20 percent to be invested in repurchase agreements, 65 percent to be invested in money market mutual funds (no individual fund family can exceed 30 percent of the overall portfolio), 30 percent to be invested in Certificates of Deposits, and 5 percent to be invested in FLGIT. No more than 25 percent of the total portfolio can be invested with one investment company.

The County's total investment portfolio at September 30, 2012 and 2011, was \$917,813,000 and \$1,028,089,000, respectively. The portion of the Port Authority's portfolio invested in Federal instrumentalities is detailed as follows, at September 30, 2012 and 2011:

| <u>2012</u>                            | Percent of<br>Total<br>Portfolio |
|--|----------------------------------|
| <u>Issuer</u>                          |                                  |
| Federal Home Loan Mortgage Corporation | 2.71%                            |
| Federal National Mortgage Association  | <u>1.1%</u>                      |
| Total Federal Instrumentalities        | <u>3.81%</u>                     |

| <u>2011</u>                            | Percent of<br>Total<br>Portfolio |
|--|----------------------------------|
| <u>Issuer</u>                          |                                  |
| Federal Home Loan Mortgage Corporation | 0.97%                            |
| Federal Home Loan Bank                 | <u>2.55%</u>                     |
| Total Federal Instrumentalities        | <u>3.52%</u>                     |

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Reconciliation of cash and cash equivalents, and investments from the schedule of deposits and investments to the financial statements:

| <u>2012</u>               |                  |
|---------------------------|------------------|
| Current:                  |                  |
| Cash and cash equivalents | \$97,064         |
| Investments               | 10,401           |
| Restricted:               |                  |
| Cash with fiscal agent    | 16,321           |
| Non-current:              |                  |
| Restricted:               |                  |
| Cash and cash equivalents | 46,057           |
| Investments               | <u>24,928</u>    |
| Total                     | <u>\$194,771</u> |

| <u>2011</u>               |                  |
|---------------------------|------------------|
| Current:                  |                  |
| Cash and cash equivalents | \$100,649        |
| Investments               | 10,475           |
| Restricted:               |                  |
| Cash with fiscal agent    | 11,538           |
| Non-current:              |                  |
| Restricted:               |                  |
| Cash and cash equivalents | 38,328           |
| Investments               | <u>26,211</u>    |
| Total                     | <u>\$187,201</u> |

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NOTE V. CAPITAL ASSETS

Increases and decreases in capital asset activity include transfers. Capital asset activity for the fiscal years ended September 30, 2012 and 2011, was as follows (dollars in thousands):

|   | Beginning<br>Balance | Increases         | Decreases          | Ending<br>Balance |
|---|----------------------|-------------------|--------------------|-------------------|
| <i>Fiscal Year 2012</i>                     |                      |                   |                    |                   |
| Capital assets not being depreciated:       |                      |                   |                    |                   |
| Land  | \$ 142,800           | \$ 130            | \$ (10,154)        | \$ 132,776        |
| Easement & Right of Ways                    | 47                   | -                 | (2)                | 45                |
| Construction in progress                    | 29,078               | 8,835             | (7,928)            | 29,985            |
| Artwork                                     | 713                  | 2                 | -                  | 715               |
| Total capital assets not being depreciated  | <u>172,638</u>       | <u>8,967</u>      | <u>(18,084)</u>    | <u>163,521</u>    |
| Capital assets being depreciated:           |                      |                   |                    |                   |
| Buildings                                   | 337,222              | 54                | (559)              | 336,717           |
| Improvements other than buildings           | 19,087               | 10                | (98)               | 18,999            |
| Machinery and equipment                     | 48,950               | 693               | (903)              | 48,740            |
| Software                                    | 2,999                | -                 | -                  | 2,999             |
| Infrastructure                              | 289,764              | 912               | -                  | 290,676           |
| Total capital assets being depreciated      | <u>698,022</u>       | <u>1,669</u>      | <u>(1,560)</u>     | <u>698,131</u>    |
| Less accumulated depreciation for:          |                      |                   |                    |                   |
| Buildings                                   | 49,930               | 6,819             | (231)              | 56,518            |
| Improvements other than buildings           | 8,633                | 1,160             | (67)               | 9,726             |
| Machinery and equipment                     | 21,058               | 3,157             | (887)              | 23,328            |
| Software                                    | 2,835                | 66                | -                  | 2,901             |
| Infrastructure                              | 98,274               | 8,363             | -                  | 106,637           |
| Total accumulated depreciation              | <u>180,730</u>       | <u>19,565</u>     | <u>(1,185)</u>     | <u>199,110</u>    |
| Total capital assets being depreciated, net | <u>517,292</u>       | <u>(17,896)</u>   | <u>(375)</u>       | <u>499,021</u>    |
| Capital assets, net                         | <u>\$ 689,930</u>    | <u>\$ (8,929)</u> | <u>\$ (18,459)</u> | <u>\$ 662,542</u> |
| <i>Fiscal Year 2011</i>                     |                      |                   |                    |                   |
| Capital assets not being depreciated:       |                      |                   |                    |                   |
| Land  | \$ 142,800           | \$ -              | \$ -               | \$ 142,800        |
| Easement & Right of Ways                    | 45                   | 2                 | -                  | 47                |
| Construction in progress                    | 23,034               | 21,521            | (15,477)           | 29,078            |
| Artwork                                     | 50                   | 663               | -                  | 713               |
| Total capital assets not being depreciated  | <u>165,929</u>       | <u>22,186</u>     | <u>(15,477)</u>    | <u>172,638</u>    |
| Capital assets being depreciated:           |                      |                   |                    |                   |
| Buildings                                   | 328,769              | 8,522             | (69)               | 337,222           |
| Improvements other than buildings           | 17,948               | 1,139             | -                  | 19,087            |
| Machinery and equipment                     | 47,683               | 5,795             | (4,528)            | 48,950            |
| Software                                    | 2,999                | -                 | -                  | 2,999             |
| Infrastructure                              | 288,437              | 2,087             | (760)              | 289,764           |
| Total capital assets being depreciated      | <u>685,836</u>       | <u>17,543</u>     | <u>(5,357)</u>     | <u>698,022</u>    |
| Less accumulated depreciation for:          |                      |                   |                    |                   |
| Buildings                                   | 43,287               | 6,712             | (69)               | 49,930            |
| Improvements other than buildings           | 7,540                | 1,093             | -                  | 8,633             |
| Machinery and equipment                     | 21,860               | 3,160             | (3,962)            | 21,058            |
| Software                                    | 2,662                | 173               | -                  | 2,835             |
| Infrastructure                              | 90,370               | 8,568             | (664)              | 98,274            |
| Total accumulated depreciation              | <u>165,719</u>       | <u>19,706</u>     | <u>(4,695)</u>     | <u>180,730</u>    |
| Total capital assets being depreciated, net | <u>520,117</u>       | <u>(2,163)</u>    | <u>(662)</u>       | <u>517,292</u>    |
| Capital assets, net                         | <u>\$ 686,046</u>    | <u>\$ 20,023</u>  | <u>\$ (16,139)</u> | <u>\$ 689,930</u> |

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NOTE V. CAPITAL ASSETS (continued)

Interest costs related to construction are capitalized. In addition, earnings from the investment of tax-exempt bond proceeds earmarked for construction are offset against interest subject to capitalization. Net interest expense capitalized for the years ended September 30, 2012 and September 30, 2011, was \$301,000 and \$331,000, respectively.

*Minimum Future Rentals*

The Port Authority leases certain facilities to vendors at the Southwest Florida International Airport. Such agreements are short-term in nature and are accounted for as operating leases. Certain leases contain both fixed minimum rentals and contingent rentals based on the vendor's agreement. Contingent rental revenues arise from a percentage of the lessees' gross revenue.

At September 30, 2012, minimum future rentals of operating leases were as follows (dollars in thousands):

| <u>Fiscal Year(s)</u>        | <u>Amount</u>    |
|------------------------------|------------------|
| 2013                         | \$ 40,443        |
| 2014                         | 25,887           |
| 2015                         | 25,890           |
| 2016                         | 25,223           |
| 2017                         | 25,210           |
| Later years                  | <u>68,942</u>    |
| Total minimum future revenue | <u>\$211,595</u> |

For the years ended September 30, 2012 and 2011, \$4,819,000 and \$5,407,000, respectively, of contingent rentals were included in rentals, concessions, and rental car revenues on the accompanying Statements of Revenues, Expenses, and Changes in Net Assets.

Substantially all of the Port Authority's property is used in leasing activities with either airlines or other vendors.

NOTE VI. LONG-TERM DEBT

*Revenue Bonds*

Revenue bonds payable at September 30, 2012 and 2011, consisted of the following:

- Series 2005 Airport Revenue Refunding Bonds, for \$37,805,000 at interest rates ranging from 3.5 percent to 5 percent (effective interest rate of 5.642 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2012 and 2011, was \$37,585,000 and \$37,625,000, respectively.
- Series 2010A Airport Revenue Refunding Bonds, for \$119,350,000 at interest rates ranging from 3 percent to 5.5 percent (effective interest rate of 5.48 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2012 and 2011 was \$111,730,000 and \$119,350,000, respectively.
- Series 2011A (AMT) Airport Revenue Refunding Bonds, for \$174,450,000 at interest rates ranging from 3 percent to 5.63 percent (effective interest rate of 5.64 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2012 and 2011 was \$174,450,000.

The total revenue bonds payable at September 30, 2012 and 2011, were \$323,765,000 and \$331,425,000, respectively.

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The annual debt service requirements for revenue bonds at September 30, 2012, were as follows (dollars in thousands):

| <u>Fiscal Year(s)</u> | <u>Principal</u>        | <u>Interest</u>         | <u>Total</u>            |
|-----------------------|-------------------------|-------------------------|-------------------------|
| 2013                  | \$7,895                 | \$16,655                | \$24,550                |
| 2014                  | 8,470                   | 16,249                  | 24,719                  |
| 2015                  | 8,900                   | 15,818                  | 24,718                  |
| 2016                  | 9,330                   | 15,365                  | 24,695                  |
| 2017                  | 9,800                   | 14,891                  | 24,691                  |
| 2018-2022             | 56,975                  | 66,221                  | 123,196                 |
| 2023-2027             | 75,615                  | 49,094                  | 124,709                 |
| 2028-2032             | 98,830                  | 25,881                  | 124,711                 |
| 2033-2034             | 47,950                  | 2,467                   | 50,417                  |
| <b>Total</b>          | <b><u>\$323,765</u></b> | <b><u>\$222,641</u></b> | <b><u>\$546,406</u></b> |

The following is a summary of bond activity of the Port Authority for the years ended September 30, 2012 and 2011 (dollars in thousands):

|  | <u>2012</u>      | <u>2011</u>      |
|--|------------------|------------------|
| Beginning balance                        | \$331,425        | \$357,505        |
| Additions                                | -                | 174,450          |
| Reduction                                | <u>(7,660)</u>   | <u>(200,530)</u> |
| Bonds payable at end of fiscal year      | 323,765          | 331,425          |
| Plus unamortized premium (discount)      | 4,297            | 4,791            |
| Less unamortized refunding loss          | <u>(10,710)</u>  | <u>(11,591)</u>  |
| Bonds payable at end of fiscal year, net | <u>\$317,352</u> | <u>\$324,625</u> |

### *Bond Resolutions*

The Airport Revenue Bonds, Series 2005, the Airport Revenue Refunding Bonds, Series 2010A, and the Airport Revenue Refunding Bonds, Series 2011A (AMT) are collateralized by a lien on and a pledge of the net revenues from the operation of SWFIA.

The Port Authority has agreed to maintain such fees and rates to provide revenues sufficient to pay all current expenses of SWFIA and the greater of 125

percent of the principal and interest payments due in the next succeeding fiscal year or 100 percent of the principal and interest payments due in the next succeeding fiscal year plus any other required payments under the bond resolutions.

The resolutions for the following bonds established certain accounts and determined the order in which certain revenues are to be deposited into those accounts. In addition, there are various other covenants established by the official statements and resolutions, including such items as debt service coverage, reporting requirements, and maintenance of facilities. Management believes that it has complied, in all material respects, with these covenants. All required balances at year-end were maintained on the following issues:

#### Revenue bonds:

- Airport Revenue Refunding Bonds, Series 2005
- Airport Revenue Refunding Bonds, Series 2010A
- Airport Revenue Refunding Bonds, Series 2011A (AMT)

### *Defeased Bonds*

In prior years, the Port Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Port Authority's financial statements.

The amount of defeased bonds outstanding at September 30, 2012 and 2011, consisted of the following (dollars in thousands):

|                                     | <u>2012</u> | <u>2011</u>      |
|-------------------------------------|-------------|------------------|
| Airport Revenue Bonds, Series 2000A | \$ -        | \$172,575        |
| Total outstanding                   | <u>\$ -</u> | <u>\$172,575</u> |

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*Notes Payable*

*Line of Credit*

The Port Authority has entered into a \$10,000,000 line of credit with a commercial bank to finance certain airport-related capital projects at an interest rate of 117 percent of London Interbank Offered Rates ("LIBOR"). Effective January 1, 2006, a more favorable interest rate was negotiated of 67 percent of LIBOR plus 73 basis points, which was .88 percent as of September 30, 2012. To date, the Port Authority has drawn \$10,000,000 from the line of credit. Principal is payable semi-annually beginning June 1, 2006 and interest is payable monthly on the unpaid balance until final maturity on December 1, 2020. The line of credit is collateralized by a lien on and a pledge of the net revenues of Page Field General Aviation Airport. The outstanding balance at September 30, 2012 and 2011, was \$3,812,000 and \$4,167,000, respectively. The available balance at September 30, 2012 and 2011, was \$6,188,000 and \$5,833,000, respectively.

The annual debt service requirements for the Port's variable rate note payable at September 30, 2012, based on the variable interest rate in effect on that date, were as follows (dollars in thousands):

| <u>Fiscal Year(s)</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>   |
|-----------------------|------------------|-----------------|----------------|
| 2013                  | \$375            | \$33            | \$408          |
| 2014                  | 395              | 29              | 424            |
| 2015                  | 415              | 26              | 441            |
| 2016                  | 435              | 23              | 458            |
| 2017                  | 455              | 19              | 474            |
| 2018-2021             | <u>1,737</u>     | <u>32</u>       | <u>1,769</u>   |
| Total                 | <u>\$3,812</u>   | <u>\$162</u>    | <u>\$3,974</u> |

The following is a summary of variable rate note payable activity of the Port Authority for the years ended September 30, 2012 and 2011 (dollars in thousands):

|   | <u>2012</u>    | <u>2011</u>    |
|---|----------------|----------------|
| Beginning balance                           | \$4,167        | \$4,507        |
| Additions (Deletions)                       | <u>(355)</u>   | <u>(340)</u>   |
| Variable debt payable at end of fiscal year | <u>\$3,812</u> | <u>\$4,167</u> |

*PFC Note Payable*

The Port Authority has entered into an \$18,790,000 loan agreement with a commercial bank to refund its Passenger Facility Charge Revenue and Refunding Bonds, Series 1998. The loan is collateralized by a lien on and a pledge of the passenger facility charge revenues. Interest is payable semi-annually at an interest rate of 1.91 percent. Principal is payable annually starting on October 1, 2011, and maturing on October 1, 2016. The outstanding balance at September 30, 2012 and 2011, was \$12,840,000 and \$15,900,000, respectively.

The annual debt service requirements for the Port's PFC note payable at September 30, 2012 were as follows (dollars in thousands):

| <u>Fiscal Year(s)</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>    |
|-----------------------|------------------|-----------------|-----------------|
| 2013                  | \$ -             | \$122           | \$122           |
| 2014                  | 3,120            | 215             | 3,335           |
| 2015                  | 3,180            | 155             | 3,335           |
| 2016                  | 3,240            | 94              | 3,334           |
| 2017                  | <u>3,300</u>     | <u>31</u>       | <u>3,331</u>    |
| Total                 | <u>\$12,840</u>  | <u>\$617</u>    | <u>\$13,457</u> |

*Operating Leases*

The Port Authority is not currently committed to any operating leases with terms in excess of one year. All terms are month to month; thereby there are no future minimum rental payments as of September 30, 2012. The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2012 and 2011, was \$112,000 and \$147,000, respectively.

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*Compensated Absences*

The following is a summary of compensated absences activity for the Port Authority for the years ended September 30, 2011 and 2010 (dollars in thousands):

|   | <u>2012</u>    | <u>2011</u>    |
|---|----------------|----------------|
| Beginning balance                                     | \$1,412        | \$1,389        |
| Additions   | 2,570          | 2,088          |
| Reductions  | <u>(2,487)</u> | <u>(2,065)</u> |
| Compensated absences payable<br>at end of fiscal year | <u>\$1,495</u> | <u>\$1,412</u> |

Of the \$1,495,000 balance at September 30, 2012, \$1,038,000 is due within one year.

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NOTE VII: SEGMENT INFORMATION

The County has outstanding revenue bonds that are financed by Southwest Florida International Airport revenues, and an outstanding line of credit that is financed by Page Field General Aviation Airport revenues. Both activities are accounted for in a single fund (Lee County Port Authority). Summary financial information for the Southwest Florida International Airport and Page Field General Aviation Airport are presented as follows (dollars in thousands).

|  | Southwest Florida<br>International Airport |                   | Page Field General<br>Aviation Airport |                  |
|--|--|-------------------|--|------------------|
|  | 2012                                       | 2011              | 2012                                   | 2011             |
| <i>Condensed Statements of Net Assets</i>          |  |                   |  |                  |
| Assets   |  |                   |  |                  |
| Current assets                                     | \$ 85,859                                  | \$ 91,222         | \$ 8,802                               | \$ 7,645         |
| Restricted assets                                  | 50,058                                     | 45,448            | 0                                      | -                |
| Capital assets                                     | 595,186                                    | 613,759           | 54,242                                 | 55,824           |
| Other assets                                       | 3,570                                      | 3,830             | -                                      | -                |
| Total assets                                       | <u>734,673</u>                             | <u>754,259</u>    | <u>63,044</u>                          | <u>63,469</u>    |
| Liabilities  |  |                   |  |                  |
| Current liabilities                                | 12,923                                     | 17,992            | 1,043                                  | 1,556            |
| Current liabilities payable from restricted assets | 16,340                                     | 11,182            | 375                                    | 355              |
| Noncurrent liabilities                             | 323,339                                    | 328,348           | 4,747                                  | 5,012            |
| Total liabilities                                  | <u>352,602</u>                             | <u>357,522</u>    | <u>6,165</u>                           | <u>6,923</u>     |
| Net assets   |  |                   |  |                  |
| Invested in capital assets, net of related debt    | 302,876                                    | 314,095           | 50,316                                 | 50,644           |
| Restricted   | 15,171                                     | 14,997            | -                                      | -                |
| Unrestricted                                       | 64,024                                     | 67,645            | 6,563                                  | 5,902            |
| Total net assets                                   | <u>\$ 382,071</u>                          | <u>\$ 396,737</u> | <u>\$ 56,879</u>                       | <u>\$ 56,546</u> |

*Condensed Statements of Revenues, Expenses, and Changes in Net Assets*

|                          |               |               |                |                |
|--------------------------|---------------|---------------|----------------|----------------|
| Operating revenues       |               |               |                |                |
| User fees                | \$ 40,900     | \$ 41,399     | \$ 6,383       | \$ 5,439       |
| Rentals                  | 2,847         | 3,027         | 2,352          | 2,352          |
| Concessions              | 34,043        | 35,701        | 87             | 53             |
| Miscellaneous            | 139           | 124           | 9              | 7              |
| Less: Rebates            | (2,546)       | (4,361)       | -              | -              |
| Total operating revenues | <u>75,383</u> | <u>75,890</u> | <u>8,831</u>   | <u>7,851</u>   |
| Operating expenses       |               |               |                |                |
| Depreciation             | 17,178        | 17,759        | 2,390          | 1,950          |
| Other operating expenses | 51,881        | 52,590        | 8,508          | 7,786          |
| Total operating expenses | <u>69,059</u> | <u>70,349</u> | <u>10,898</u>  | <u>9,736</u>   |
| Operating income (loss)  | <u>6,324</u>  | <u>5,541</u>  | <u>(2,067)</u> | <u>(1,885)</u> |

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NOTE VII: SEGMENT INFORMATION (continued)

|  | Southwest Florida<br>International Airport |                   | Page Field General<br>Aviation Airport |                  |
|--|--|-------------------|--|------------------|
|  | 2012                                       | 2011              | 2012                                   | 2011             |
| <i>Condensed Statements of Revenues, Expenses, and Changes in Net Assets (continued)</i> |  |                   |  |                  |
| Non-operating revenues (expenses)  |  |                   |  |                  |
| Investment earnings  | \$ 341                                     | \$ 329            | \$ 21                                  | \$ 24            |
| Interest expense   | (17,414)                                   | (18,592)          | 27                                     | 10               |
| Other non-operating  | 462  | 331               | (359)                                  | (70)             |
| Total non-operating revenues (expenses)  | <u>(16,611)</u>                            | <u>(17,932)</u>   | <u>(311)</u>                           | <u>(36)</u>      |
| Loss before capital contributions  | (10,287)                                   | (12,391)          | (2,378)                                | (1,921)          |
| Capital Contributions  | 5,631                                      | 7,200             | 1,511                                  | 7,030            |
| Transfers  | (10,010)                                   | (46)              | 1,200                                  | 2,109            |
| Change in net assets   | <u>(14,666)</u>                            | <u>(5,237)</u>    | <u>333</u>                             | <u>7,218</u>     |
| Beginning net assets   | 396,737                                    | 401,974           | 56,546                                 | 49,328           |
| Ending net assets  | <u>\$ 382,071</u>                          | <u>\$ 396,737</u> | <u>\$ 56,879</u>                       | <u>\$ 56,546</u> |

*Condensed Statements of Cash Flows*

|  |                   |                   |                 |                 |
|--|-------------------|-------------------|-----------------|-----------------|
| Net cash provided (used) by:             |                   |                   |                 |                 |
| Operating activities                     | \$ 19,843         | \$ 28,588         | \$ 815          | \$ 308          |
| Noncapital financing activities          | (9,515)           | (1,546)           | (1)             | 2,109           |
| Capital and related financing activities | (13,417)          | (28,770)          | 233             | (4,759)         |
| Investing activities                     | 1,751             | 341               | 21              | 24              |
| Net increase (decrease)                  | <u>(1,338)</u>    | <u>(1,387)</u>    | <u>1,068</u>    | <u>(2,318)</u>  |
| Beginning cash and cash equivalents      | 102,039           | 103,426           | 6,879           | 9,197           |
| Ending cash and cash equivalents         | <u>\$ 100,701</u> | <u>\$ 102,039</u> | <u>\$ 7,947</u> | <u>\$ 6,879</u> |

Certain funds that relate to activities at both the Southwest Florida International Airport and Page Field are not included in the segmented statements, including the K-9 donation fund and the discretionary fund. In addition, all of the funds related to the passenger facility charges are omitted from the segmented statements.

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NOTE VIII. RETIREMENT PLAN

*Plan Description and Provisions*

The Port Authority participates in the Florida Retirement System ("FRS"), a cost-sharing, multiple-employer, public employee retirement system, which covers substantially all of the full-time and part-time employees. The FRS is contributory and is administered by the State of Florida.

Benefits under the Pension Plan vest after six years of service for members who joined FRS prior to July 1, 2011, and vest after eight years for members who first joined FRS on or after July 1, 2011. Employees who joined FRS prior to July 1, 2011, and retire at or after age 62 with six years of credited service, or with 30 years of service regardless of age, are entitled to an annual retirement benefit, payable monthly for life. Employees who joined FRS on or after July 1, 2011, and retire at or after age 65 with eight years of credited service, or 33 years of service regardless of age, are entitled to receive an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by Chapters 112 and 121, *Florida Statutes*. The FRS offers several other plan and/or investment options that may be elected by the employee. Each offers specific contribution and benefit options. The FRS plan documents should be referenced for complete details of these options and benefits.

A 3 percent employee contribution is required as of July 1, 2011. Pension costs for the Port Authority as required and defined by State statute ranged between 4.91 percent and 14.90 percent of gross salaries for fiscal year 2012. For fiscal years ended September 30, 2012, 2011, and 2010, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated \$1.5 million, \$2.5 million, and \$2.6 million, respectively, which represents 8 percent, 12 percent, and 13 percent, of covered payroll.

The Deferred Retirement Option Program ("DROP") is a program that provides an alternative method of payment of retirement benefits for a specified and limited period for members of FRS, effective July 1, 1998. Under this program, the employee may retire and have their benefits accumulate in the Florida Retirement System Trust Fund, earning interest, while continuing to work for an employer. The participation in the plan does not change conditions of employment. When the DROP period ends, a maximum of 60 months, employment must be terminated. At the time of termination of employment, the employee will receive payment of the accumulated DROP benefits, and begin receiving their monthly retirement benefit (in the same amount determined at retirement, plus annual cost-of-living increases).

A copy of the FRS's annual report can be obtained by writing to the Florida Department of Management Services - Division of Retirement, PO Box 9000, Tallahassee, Florida 32315-9000, or by calling (850) 488-5706.

*Other Postemployment Benefits*

The Port Authority provides post-retirement health care benefits, through participation in the County's self-funded insurance plan, to all employees who retire from the Port Authority. In accordance with Chapter 110.123, *Florida Statutes*, the Port Authority is required to provide group health care at cost to all retirees. For employees hired on or before January 01, 2008, the Port Authority currently pays 50 percent of the portion of the premium for the retiree to participate in the Plan. This policy was discontinued on January 01, 2008; therefore, the Port Authority does not currently subsidize any portion of the premium for employees hired after that date. The County has the authority to establish and amend the benefit provisions of the plan. The County follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Expenses related to these benefits totaling \$2,646,000 and \$2,942,000 for 2012 and 2011,

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respectively, are based on the Port Authority's percentage of employees relative to the County as a whole, multiplied by the County's total postemployment benefit expense. For fiscal years ended September 30, 2012 and 2011, the Other Postemployment Benefits liability totaled \$14,207,000 and \$11,561,000, respectively, and is included in accrued liabilities on the accompanying Statements of Net Assets.

#### NOTE IX. RISK MANAGEMENT

The Port Authority has been a member of Public Risk Management of Florida ("PRM"), a local government liability risk pool, since it was established in 1989. During that time, all property and casualty insurance lines were purchased through PRM. Following the move to the new terminal, the Port Authority, with the assistance of its insurance consultant and broker, concluded that there was a potential for an improved overall insurance program that would provide substantial savings. The Port Authority subsequently terminated its membership with PRM effective March 31, 2009.

The Port Authority then directed its broker, Arthur J. Gallagher, to solicit quotations on property and casualty coverage for the next renewal period. All lines of insurance costs for 2012 and 2011 were \$1,732,000 and \$1,725,000, respectively.

The Port Authority participates in the County's self-insurance program for group medical and group dental coverage. Funding for this program is generated by charges to the operating departments based on management's annual estimates of claim loss funding and administration/operating costs. For the fiscal years ended September 30, 2012 and 2011, the Port Authority was charged \$5,149,000 and \$4,740,000, respectively, for the insurance program.

The Port Authority is exposed to other various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

#### NOTE X. COMMITMENTS AND CONTINGENCIES

At September 30, 2012 and 2011, the Port Authority had in process various construction contracts totaling \$81,660,000 and \$47,103,000, respectively. Costs incurred on these contracts as of September 30, 2012 and 2011, totaled \$36,102,000 and \$40,435,000, respectively, including retainage payable of \$584,000 and \$1,305,000, respectively.

The Port Authority is currently receiving, and has received in the past, grants that are subject to special compliance audits by the grantor agency, which may result in disallowed expense amounts. These amounts constitute a contingent liability of the Port Authority. The Port Authority does not believe any contingent liabilities to be material.

The Port Authority currently prepares rebate calculations on all debt subject to arbitrage per the United States Department of the Treasury Regulations, Section 1.148, and the Internal Revenue Service Code of 1986. Rebates, if any, are paid to the Internal Revenue Service every fifth year after the year of issuance. Within the five-year period, any positive arbitrage (liability) may be offset by any negative arbitrage (non-liability). These rebates constitute a liability of the Port Authority, which is reported as other noncurrent liabilities.

#### NOTE XI. SPECIAL ITEM - LOSS ON DISCONTINUED PROJECTS

On January 9, 2012, the Board of Port Commissioners approved a deed of release from the Federal Aviation Administration to the Florida Department of Transportation ("FDOT") of land purchased specifically by the Port Authority for a direct connector road between SWFIA and I-75. Subsequently, the FDOT has agreed to fund, construct, and provide perpetual maintenance for the direct connection between I-75 and SWFIA. The purchase price of the land was \$10,151,000. In addition, SWFIA incurred \$6,146,000 in design and permitting costs for the connector road. The FDOT is

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utilizing the resulting plans and permits to expedite the construction. The transaction closed on May 18, 2012 and a loss was recognized in the amount of \$16,297,000. The FDOT began construction on October 20, 2012.

In addition, in fiscal year 2012, a loss for \$649,000 was recognized related to conceptual design costs incurred on a SWFIA terminal expansion project. The project has been postponed indefinitely.

#### NOTE XII. PASSENGER FACILITY CHARGE

In November 1992, the Port received approval from the Federal Aviation Administration ("FAA") to impose a Passenger Facility Charge ("PFC") of \$3.00 per eligible enplaned passenger. In 1998, the Port issued PFC Revenue Bonds for \$52,225,000 to fund eligible capital improvements and land acquisition. In November 2003, the Port was granted authority to raise the PFC level from \$3.00 to \$4.50. In September 2010, the FAA approved a PFC Application for \$51,877,000. Projects in the application were all for the Southwest Florida International Airport and include design and construction of a new Fire and Rescue Station, various fire rescue equipment, design and construction of taxiways and apron, design and permitting of the parallel runway, passenger terminal improvements, enhancements to the mitigation park, and master planning and noise studies.

In June 2011, an amendment to Application #6 was approved and reduced that application by \$2,086,000. As a result, the total collection authority was \$296,455,000 with an estimated expiration date of May 1, 2018, as amended below.

In September 2012, an amendment to Application #7 was approved and increased that application by \$4,612,000. As a result, the total collection authority is \$301,067,000 with an estimated expiration date of October 1, 2018.

#### NOTE XIII. AIRLINE USE AGREEMENTS

##### *Signatory Airlines*

The Port Authority negotiated a new airline use agreement ("Airline Airport Lease & Use Agreement") with the Participating Airlines (now referred as "Signatory Airlines") with the key terms of the agreement approved by the Board in May 2008. The new Agreement commenced on October 1, 2008 with a five-year term, expiring on September 30, 2013.

The new agreement, commonly referred to as a hybrid compensatory agreement, has a revenue sharing component. In any year in which there are net remaining revenues generated at the Airport, and all requirements of the Bond Resolution have been satisfied, the net remaining revenues shall be divided between the Authority (60%) and the Signatory Airlines (40%). The agreement provides for better flexibility as there is no majority-in-interest approval required for capital projects.

Refunds/Rebates are generated from settlement with the Airlines and the revenue sharing component of the Airline Airport Lease & Use Agreement.

Terminal premises are leased on an exclusive use, preferential use, and joint use basis. The Authority will lease certain Terminal premises on a common use basis, as may be necessary. It is the intent of the Authority to manage its Terminal facilities in an efficient manner, while also respecting the schedules of its airline parties. Ticket counters, offices, operations areas, and baggage make-up facilities are leased on an exclusive use basis. Gates/holdrooms and aircraft parking positions are leased on a preferential use basis. Baggage claim is leased on a joint use basis, with costs allocated to the Signatory Airlines based on twenty percent (20%) allocated to all Signatory Airlines equally, and eighty percent (80%) allocated to all Signatory Airlines based on the ratio of each Signatory Airline's annual enplaned passengers at the Airport.

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Landing Fees are calculated using a “residual” Airfield Cost Center approach and are based upon the total landed weight for all airline groups (Signatory, non-Signatory, Cargo, Charter, and International). Terminal Rents are calculated using a commercial compensatory method (i.e., rentable square foot divisor). Charges for the leasing of all Terminal space are assessed on a square-footage basis.

In fiscal year 2012 and 2011, the signatory airlines paid the Port Authority \$24,470,000 and 2,992,000, respectively. These amounts are net of refunds of \$2,680,000 and \$838,000, respectively, and revenue sharing of \$3,584,000 and \$2,546,000, respectively.

### *Nonparticipating Airlines*

The Port Authority has also entered into short-term use agreements or permits with the airlines serving the airport other than the Signatory Airlines. Nonparticipating airlines are assessed fees no less than those paid by the Signatory Airlines and do not share in any rebates.

### *Airline Bankruptcies*

American Airlines declared bankruptcy on November 29, 2011. American Airlines is a Signatory Airline with an average of four daily flights. The Port Authority expects a minimal effect on its operations due to the bankruptcy declaration, and expect no change in the terms of the airline use agreement that expires September 30, 2013.

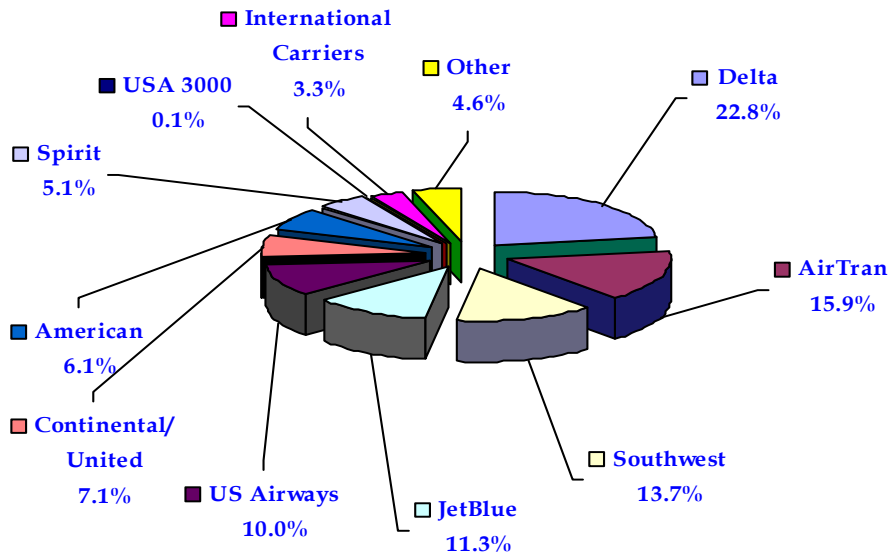
## NOTE XIV. OTHER

### *Litigation*

The Port Authority is involved in ongoing litigation arising in the ordinary course of operations. It is the opinion of management and legal counsel that the outcome of this litigation will not materially affect the financial position of the Port Authority.

LEE COUNTY PORT AUTHORITY  
 Airline Market Share and Passenger Information  
 For the Fiscal Year Ended September 30, 2012  
 (unaudited)

Total passenger traffic is shown below for fiscal year 2012 showing market share for each major airline at Southwest Florida International Airport.



| Airline                | 2012             | 2011             | Change from 2011 | % Change from 2011 |
|------------------------|------------------|------------------|------------------|--------------------|
| Delta                  | 1,656,000        | 1,613,000        | 43,000           | 2.67%              |
| Air Tran               | 1,155,000        | 1,336,000        | (181,000)        | -13.55%            |
| Southwest              | 995,000          | 934,000          | 61,000           | 6.53%              |
| JetBlue                | 820,000          | 889,000          | (69,000)         | -7.76%             |
| US Airways             | 730,000          | 708,000          | 22,000           | 3.11%              |
| Continental/United     | 515,000          | 579,000          | (64,000)         | -11.05%            |
| American               | 446,000          | 396,000          | 50,000           | 12.63%             |
| Spirit                 | 372,000          | 443,000          | (71,000)         | -16.03%            |
| USA 3000               | 9,000            | 83,000           | (74,000)         | -89.16%            |
| International Carriers | 242,000          | 237,000          | 5,000            | 2.11%              |
| Other*                 | 337,000          | 450,000          | (113,000)        | -25.11%            |
| <b>Total</b>           | <b>7,277,000</b> | <b>7,668,000</b> | <b>(391,000)</b> | <b>-5.10%</b>      |

\* Represents all domestic carriers with less than a 5% market share.